

Challenge

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letters TO THE EDITOR

Challenge invites your comments. Address letters to
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Alaska revisited

• Now that Alaska is part of the Union, can we send some electronically aided Benthamites there to measure the new access of happiness? Is the climate balmy? What percentage of the population, excluding caribou, lives in expectation of running for the Senate?

THEODORE K. FRANCIS

Westerly, R. I.

Surprising things

• Why don't the motivation researchers investigate the subconscious of the manufacturers who can pay for their costly services? [*Why You Buy*, January, 1959] We might learn some surprising things, but one truth is self-evident: products are not changed to please the consumer; they are merely disguised with new slogans and packages.

HAROLD LEWIS

Cleveland, Ohio

Motivation research

• I wonder how many of the great research projects are just mechanical substitutes for sensitive, progressive executive thinking. I mean studies like motivational research or your surveys of voters' preferences. Shakespeare and Phineas T. Barnum

got along very well without interviewers and file cards. Executives should remember that they are people, too.

CHRISTOPHER CASEY

Newark, N. J.

More motivation

• Can your MR expert tell me why I buy CHALLENGE?

ERIC ERICSSON

Duluth, Minn.

Economic man

• I don't have a car, television set or charge account. Am I mad?

ROGER B. STILLMAN

Des Moines, Iowa

Upgrading

• Whether it is CHALLENGE or myself (or both) who is improving, I'm uncertain; but occasionally I finish an issue with the feeling that in its entirety, it is the best thus far. Such was my reaction as I filed the December issue.

J. DAVID BECKLEY

Fairbury, Ill.

Cuba revisited

• I wonder how Prof. Blanksten, who wants us to be fatherly about Latin American revolutions, feels

about the Cuban affair. It is all very well for the scholar to consider the sad effects of government policy. But how can our diplomats tell if they are betting on the right horse? Batista once posed as an agent of progress, and he turned bad. Castro now has the same temptations.

A. G. LOPEZ

New York, N. Y.

Economics and education

- While I was in New York recently someone called my attention to your very excellent magazine and suggested that it is a type of literature we should be reading here at Stephens College. We are attempting to improve the economic education of a large group of students through an integrated course in the economics of our culture.

KERMIT CRAWLEY

Colombia, Mo.

Good business?

- At last someone dares question the merit of the business concept of what is good for society. [*Ideal and Ideology in Business*, January, 1959.] Two cars in every garage (and new ones each year, at that) may be the automotive industry's concept of a social good, but as Prof. Dowd points out, they are no substitute for better schools. While motivation research finds better ways of "pleasing" the consumer with products he does not consciously want, business uses the new methods to further pervert the idealism of the American people.

JANE MORTON

Los Angeles, Calif.

Voice of experience

- I had a little experience in Europe a short time ago and I'd like to pass

it on to those who suffer, as I suppose I do, from the all-American complacency. The American Express did not want to change more than a small sum of my dollars for local currency. Reason: the dollar was losing value and the money-changers were selling it short.

MARIO PARENTE

Los Angeles, Calif.

Expertise

I know that CHALLENGE has got to get experts to write about the issues in the fields they know. But I'd like to sound a warning: beware of the experts! Let me editorialize a little. I note that James B. Conant, who was merely President of Harvard and who should know something of the subject, has investigated education in the high schools. He concludes that it is pretty good and that all they have to do is make a few administrative changes and add more languages. But that's nonsense. Our schools are bad and everybody knows it. Admiral Rickover, who is an expert in other things, knows the situation and he is calling for 25 model high schools that would really educate and show up the others for the learning they are not imparting. I suppose that beyond being an expert, Rickover is an intelligent man.

IRMGARD HAAG

Chicago, Ill.

Federal figures

- I wonder how many government statisticians are currently busy compiling statistics to prove that their services will still be needed after automation takes over their present jobs?

H. I. MILLER

Washington, D. C.

a personal note



from the editor

You pays your money and takes your choice: No. 1, No. 2, or in between

■ AMONG THE MANY LUXURIES that we have allowed ourselves is a curious form of self-deception that can be fairly described as follows: pay no attention to smoke until you see fire, and don't jump for a bucket until the flames reach the seat of your pants. Now, I am sure that every man who thinks for himself, filter-tip cigarette smoker or not, can come up with his own list of instances when our sense of awareness was poorly served by considerably slow national reflexes. Moreover, it has become very fashionable in today's press to devote a great deal of space to what might be called soul-searching—the call for mental and moral regeneration to meet the so-called Russian challenge to our way of life. I am well aware that this column has contributed its share of this kind of well-intentioned carping; so rest easy. I am not going to start digging into that old furrow again.

My opening remarks about our capacity to deceive ourselves are prompted by the surprised reaction of my fellow citizens who on February 8, 1959 learned from government statistics that nearly five million people were still unemployed in this country. Why anyone should have been taken aback is more than I can figure out. It was obvious well before the new year that our rate of economic growth has not been sufficiently rapid to bring us close to the standards of days when 2.5 million unemployed was considered relatively full employment. Given the rate of growth that we have achieved during the past five years, five years hence anywhere from five to six million unemployed could become a chronic problem in our economy. Unless we become a nation that measures success by the number of our economic royalists (those employed), we cannot contentedly relegate five or six million people to the status of second-class citizens merely because they constitute *only* six per cent of the labor force. The sluggish rate of economic growth, then, has already posted the danger signs. And it remains to be seen what, if anything, we are going to do about what promises to be a

burning issue a few years hence. The smoke is already clearly evident.

It so happens that among the mass of commentary chastising American society for its shortcomings in the face of the cold war challenge have been numerous discussions about this very subject of economic growth in the U.S. The experts are almost unanimous in calling for a rate of economic growth approximately double that which we have experienced in recent years. Beyond that, one has little difficulty in classifying the various suggested programs into School No. 1, which says we should have more government participation in the economy so that we can achieve a truly healthy rate of growth, or School No. 2, which says we should have less government in the economy and lower taxes so that the private sectors can do the job.

Frankly, I am not prepared to say that one side is all wrong and the other side is all right. But this I do know. Either our rate of economic expansion is adequate to our needs, or it is inadequate; and let's leave the Russians out of it. I for one am not prepared to say that five million people unemployed today would be all right *if* there weren't any Russians. If what the Russians do, or say they will do, is to determine the depth of our conscience or the pace of our capacity to improve ourselves, then surely there is something wrong with us. I would much prefer to respond to the challenge of my own shortcomings than to the goadings of a deceptive adversary.

There is one other thing I know about Schools No. 1 and 2: the emphasis of their most cogent arguments seems to ignore chronology and sequence. School No. 2, the conservative one, likes the past more than the present and dissipates sound principles by displaying slogans from the abandoned side of bridges that the public long since has burned behind it. School No. 1, not as conservative, has its eyes so firmly set on the future that it has forgotten the present. Without admitting it, or perhaps not even realizing it, School No. 1 seeks to pursue programs which, if adopted, will bring about a veritable social, political and economic revolution affecting the mental set and financial stake of our most enterprising and influential citizens. In short, School No. 1 puts economic growth before all other values, and this single-mindedness makes its program suspect, perhaps to a greater degree than it deserves.

These, then, are the dilemmas of how fast we should grow and *how* we should grow. I have a feeling that the school which better articulates a program based on current realities and problems will determine the course our society chooses to follow.—H.B.



Challenge Notes

Inflation versus growth: a sterile debate; a smaller Soviet role in China; automation and liberty; testing father and mother

■ SO FAR, the debate between those who fear inflation and those who fear stagnation has been singularly sterile. Each side has proved its point by ignoring what the other has to say.

The Administration has argued convincingly that, in spite of the recent recession, inflation continues to be a real threat. While no substantial price increases are expected within the next few months, the Treasury is encountering real difficulties in refinancing this year's whopping \$13-billion deficit. On the one hand, inflation is making it more difficult and costly to attract scarce money; on the other, the government's effort to attract buyers for its securities is, in effect, pumping more money into circulation. An unbalanced budget next year would add to inflationary pressures.

The critics ignore this point and concentrate on an equally important problem: growth. With 6.1 per cent of the labor force still unemployed and with our annual

rate of GNP growth averaging an inadequate 1.6 per cent since 1955, our economy is clearly not living up to its full growth potential. Belt-tightening will not do the job; a better way is to put on more weight and keep the belt tight in this manner.

It is high time that both sides frankly admit (1) that we live in an era of secular inflation; and (2) that our economy has been operating at less than its full potential for the last four years. Having done that, they can get on with the job of suggesting how we can have adequate *and* stable growth. Or, if that is impossible, how much of the one we must sacrifice for the other.

Soviet disengagement?

The Soviet Union's recent announcement of a new five-billion-ruble-\$1.25 billion at the official exchange rate-aid program for Communist China reflects an interesting shift in her China policy. Whatever the reasons, this new

eight-year program seems to indicate that the Soviet Union will in future play a somewhat less-important role in China's economic development.

In the first place, the Soviet Union is paying less for aid than it did during the first nine years of Peiping's regime. Thus the current five-billion-ruble program for the next eight years is well below the total 10 billion rubles the Soviets are believed to have paid since 1950. While the current agreement may be supplemented later, few experts believe that the Soviet Union will match her past contributions. Since most Soviet "aid" is paid for through Chinese exports (mostly food and commodities) part of the reason may be that China's commune system is encountering difficulties—a fact which would explain the rather sharp drop in Chinese exports to non-Communist countries in recent months.

We suspect the answer goes deeper and reflects a basic contradiction between a highly industrialized country and an underdeveloped country on the move. It is significant, for example, that the new program will be administered with a minimum of Soviet assistance and expert advice. Just like the recipients of American aid, the Chinese fear exploitation. Communist ideology does not, it seems, overcome universal prob-

lems in the adjustment of interests between industrially advanced and industrially backward nations.

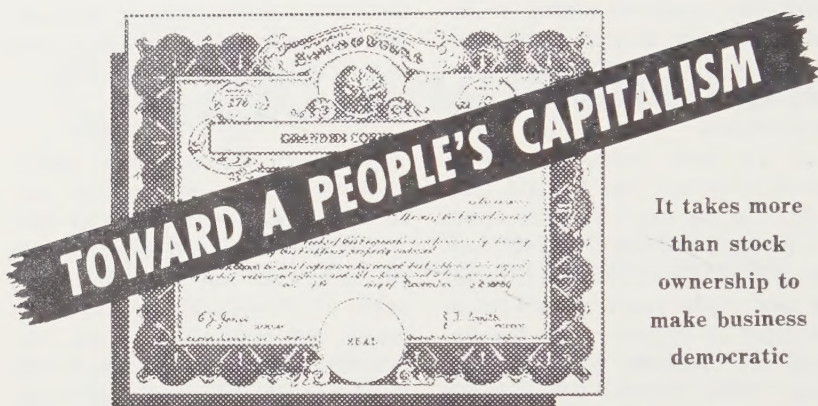
Electronic snooping

Whatever its economic consequences will be, automation certainly makes possible greater control of machines *and* humans than we have ever known before. The state of Illinois, for example, already automatically records the comings and goings of nearly five million motorists, sets their fines for certain traffic violations and even revokes their licenses if necessary. Major companies employ television and other screening devices which keep office help under constant scrutiny.

Most of these new devices can doubtless be justified on the grounds of efficiency. None of them will necessarily deprive individuals of their liberties if properly used. But the time has come for a public definition of what does and what does not constitute electronic invasion of individual privacy.

Parental testing

Some psychiatrists at the University of Washington have devised a series of tests whereby children can rate their parents. Are you a loving parent? Ask junior. Even better, let him give you a test. He will know what to do, if you don't measure up.—M.K.



by Rudolph L. Weissman

■ BEHIND THE IRON CURTAIN the good society is called "people's democracy," and we are led to believe that it either exists or that the goal will shortly be reached. It is not the purpose of this article to dispute the Communist concept but to discuss briefly its counterpart, "people's capitalism."

The latter term has been applied in response to the detractions of the Communists, and more frequently as an apt description of the framework of our society as it now exists in the United States. A good slogan is an advantage not to be dismissed lightly, a fact emphasized in political practice by words like "protective tariff," or in business as any number of brand names prove. People's capitalism hardly has the magic quality of "liberty, equality, fraterni-

ty," but it is at least a term around which a degree of enthusiasm could be evoked—provided there were more agreement about what it means.

G. Keith Funston, President of the New York Stock Exchange, was one of the first to make extensive use of the expression. Others, including the economist for a large bank and one of the nation's leading financial institutions, have given the nod of approval. The essence of a people's capitalism, according to these sources, is the broad distribution of stock ownership and the tendency of such ownership to grow rapidly in recent years.

The very truth of the assertion that the production facilities of the nation have come to be increasingly owned by larger num-

bers of people has been challenged. In a larger sense, people's capitalism could have serious deficiencies even if stock ownership were spread widely, and other qualities might be more significant in determining whether or not the wholesome features of the good society prevail.

For a limited group of companies, the gain in the number of shareholders has been most striking, making due allowance for the fact that these are the most popular companies among investors. Since 1930, the holders of American Telephone & Telegraph have increased from approximately 577,000 to more than 1,750,000; of General Electric, from 117,000 to almost 400,000; and of Standard Oil of New Jersey, from 113,000 to 470,000. From all indications, the rise in the number of shareholders since 1950 has been the greatest of any similar period.

The most recent studies indicate that there are some 8,600,000 shareholders, compared with some 6,500,000 in 1952, although the data are admittedly unsatisfactory. Other estimates place the figure at 10,000,000 or more. It hardly seems possible, in view of the common knowledge of the popularity of mutual funds and the growth of bank-administered personal trust funds, that these figures fairly reflect the expansion of stock ownership.

But critics of the wide stock ownership concept of a people's capitalism also point to the concentration of holdings. Here, too, the data leave much to be desired. That concentration is rather heavy seems to be well established. It is also true that concentration is less than it was formerly. The critics of American society often unwittingly betray their eagerness to criticize rather than understand when, on the one hand, they decry concentration, and then condemn the absence of interest in corporate affairs displayed by the typical small shareowner.

The defenders of people's capitalism have failed to make the most of their case. Its essentials reach out to much more than stock ownership and are characterized by income and its distribution, and the economic role of the citizen. Does he identify himself with certain economic activities? Does he participate actively? The general context is important: well-being and opportunities of the individual in a political environment in terms of as much individualism as is consistent with the social controls necessary to reduce inequities.

Certainly, ownership of homes and the main consumer durable goods like automobiles, radios, television sets and washing machines is not to be excluded in a consideration of the success or

failure of an economic system. The much abused gadgets to add to the amenities of life, and both the Communist and underdeveloped countries are straining to reach the stage when they can begin to make life easier for their people.

Upward movement

There are now more than 27 million homeowners in the United States, an increase of more than one-third since 1950. Total savings in the form of life insurance, United States Savings Bonds, savings bank deposits and shares in savings and loan associations total the impressive sum of \$280 billion and are expanding at the rate of four to five billions every three months. In 1958, 70 per cent of the national income went to wages and salaries against less than 60 per cent in 1929. The number of spending units with incomes of at least \$7,500 annually is now more than three times greater than in 1948, while the proportion receiving less than \$3,000 has been substantially reduced. After adjustment for price changes, the upward movement in the income scale is significant.

Progress is not so satisfactory in the case of stock ownership itself. The most liberal estimate shows a very small minority of families as shareowners. Large segments of potential buyers state they feel their knowledge of stocks

is too scanty. The schools have done a poor job in explaining the attributes of stock ownership, while the financial writers have overstressed the prospects for inflation as a reason for holding stocks as against the income and ownership factors.

While it is true that the small stockholder cannot exercise a great deal of weight in the management of a company, a greater measure of corporate democracy has been achieved through enlightened management policies and the administration of the Securities Acts. In a growing number of large corporations, no single individual or family is the dominant shareholder, and lack of concentration, as well as concentration itself presents other problems. Among the possible benefits of a dispersion of ownership is that no one is likely to take the adamant stand of earlier periods that "this is my business and I intend to run it as I please without outside interference."

With the rapid expansion of pension plans and confidence in the possibilities of ironing out the peaks and valleys of the business cycle, more widespread employee stock ownership should develop. The prospects are rather exciting, despite setbacks in the depression past. The Sears, Roebuck Pension Fund owns more than 25 per cent of the outstanding stock of

the company. Several years ago, the Chairman of the Board of United States Steel Company observed that at the prices then prevailing the company's employees could buy voting control in less than 10 years by an investment per employee of not more than \$5 per week.

It is possible to get too enthusiastic about employee stock ownership. A good deal will depend, in the case of pension funds, on who administers the fund, and employees must understand fully that dividends and prices are subject to the vicissitudes of business and the markets. The educational value could be profound in terms of a greater understanding of how the economy functions. Over a period of years, a stake in the enterprise would do much to convert the workers' "they," in referring to the company, to "we."

Democracy and accomodation

It is true that a certain dichotomy will be created by stock ownership between the immediate interests of the producer and consumer. But this is similar to that of the citizen who wants additional community services and lower taxes. Democracy, after all, consists in large part in the accomodation of diverse interests.

Efforts to realize a greater degree of what has often been called industrial democracy have been

made with evangelical fervor. The cooperative movement in Britain, for example, began as a means of providing goods to the masses, utilizing their small savings as a pool of capital. Although such organizations are of great significance in distribution in Britain, employees of cooperatives have no larger voice in management than in ordinary business.

Industrialists have tried to establish a sense of unity between management and worker with incentive pay, profit sharing, provisions for hearing workers' grievances and better housing. A contemporary example is the plan of the Nunn-Bush Shoe Company, which makes "associates" of 85 per cent or more of the workers under a "Share the Production Plan." The workers are given their share of the values created, determined by the difference between the value of production as measured by actual sales and the total production costs.

Actually, the wage earner today fares well as compared with the creditor or shareowner. It is astonishing to learn (and equally astonishing that business does not make more of the fact) that in a number of important corporations, the payments to employees for social security, pensions and other fringe benefits exceed the dividends received by the common shareholders. This is not to in-

veigh against such payments, but merely to underline the change in the relative position of labor since the time when workmen's compensation was bitterly assailed as socialistic.

More ambitious attempts to "reorganize" industry developed abroad after World War I. In Britain great expectations were aroused by the Whitely Councils. The Weimar Constitution in Germany contained elaborate provisions for Works' Councils, which were revived in West Germany after the fall of the Hitler regime. Neither of these fulfilled the hopes of their proponents. The nationalization of industry no longer is regarded seriously as a step toward industrial democracy. The miner in the coal pit in Britain now complains that in the old days he or his representative could get a hearing on the spot, but now every decision has to be made in London. It is interesting to note that President de Gaulle is an advocate of an ownership interest by industrial workers, as a method

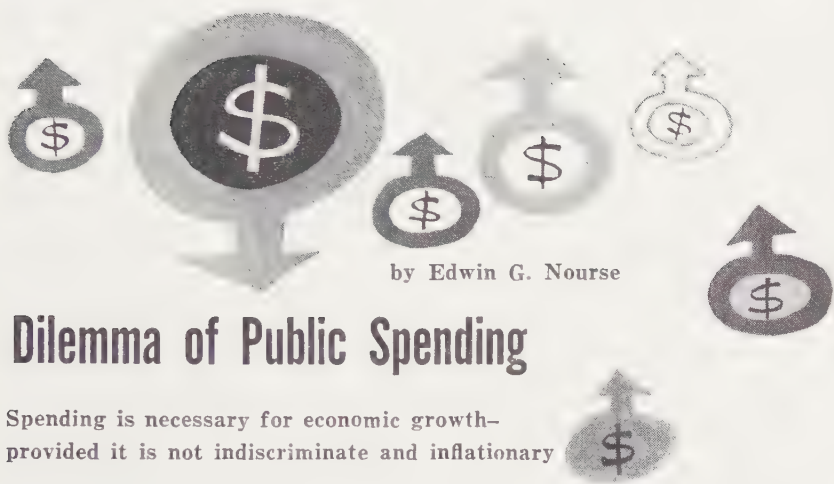
of healing the wide split between capital and labor that has long characterized the French political economy.

In a dynamic society there is no simple proof of the existence of a real people's capitalism. There can be no doubt about the greater well-being and freedom of the largest numbers in the American economy, as compared with the so-called people's democracy in Soviet Russia and Eastern Europe. We are moving toward a greater fulfillment of the noneconomic and nonpolitical aspects in satisfying psychological wants and needs. A sense of ownership through the evidence of a stock certificate is likely to be of much greater importance in another decade or two. This will be a forward move toward what the writer likes to think of as a "responsible" capitalism in which capital, management and labor will all share a larger national product, with a sense of responsibility toward each other and toward the larger community. ■

Answers to Challenge Quiz

(See page 79)

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 31</i>) | (7) True (<i>see page 8</i>) |
| (2) True (<i>see page 37</i>) | (8) False (<i>see page 48</i>) |
| (3) True (<i>see page 57</i>) | (9) False (<i>see page 70</i>) |
| (4) False (<i>see page 13</i>) | (10) True (<i>see page 29</i>) |
| (5) True (<i>see page 18</i>) | (11) False (<i>see page 24</i>) |
| (6) True (<i>see page 52</i>) | (12) False (<i>see page 66</i>) |



by Edwin G. Nourse

Dilemma of Public Spending

Spending is necessary for economic growth—
provided it is not indiscriminate and inflationary

■ THE AMERICAN PUBLIC today is preoccupied with the goal of the ever-normal boom. Its satisfaction with the good times of recent years is shadowed by the fear that we shall either spend ourselves into runaway inflation and national bankruptcy, or, in seeking to avoid this danger, that we shall tax away incentives and impede capital formation. To many it has appeared that the obvious safeguard against these threats is to put a rigorous curb on the pace of our national spending. The slogan of this doctrine is, "We cannot spend ourselves into prosperity." And more often than not, the most significant point of this caveat is directed at public spending, and public spending alone.

In this connection, I was recently surprised to learn that I

had been identified somewhere as an opponent of public spending. This is not a precise statement of my position, though my voice has been raised many times against fiscal programs that I interpreted as *inflationary* public spending. Without recanting, I want here to examine the positive case for public spending as one integral phase of the total phenomenon of spending in all departments of the economy—what the economist today calls "the spending function" in the national economic equation.

For convenience of analysis we divide this spending process of the whole economy into three major divisions: spending by households, spending by firms or business units, and spending by government. As to all three, modern sophistication has arrived at the

point of realizing that the basic rule of economic progress is the same; namely *free spending is the life of trade*. If we cannot spend ourselves into prosperity, it would be much more constructive to say, "we cannot hoard ourselves into prosperity."

Business learned this lesson first and retains it as the cardinal tenet of free enterprise capitalism. By aggressively committing already accumulated capital and magnifying its power by means of credit, business managers led the van of industrial and commercial growth. They kept expanding and modernizing plant, developing natural resources, supporting research and offering constantly more alluring incentives to workers. Free spending by American business has been probably the most potent single factor in our amazing growth.

Virtue and necessity

The mores of "free spending" developed somewhat more slowly in the area of individual and family spending. The rule of "save, patch and do without" was deeply ingrained in the days of pioneer poverty and the Puritan conscience. It had the sanction of both virtue and necessity. The well-to-do few admonished the less-fortunate many to follow this rule, and the farmers and wage earners piously accepted it as part

of their lot. But it was not their permanent fate in America, land of opportunity.

Both the agrarian movement and the union labor movement scorned the idea of teaching the rising generation to live within its income, whatever it might be. The American farmer repudiated the "peasant" status of his European prototype and strove to copy urban living standards. Union labor demanded an "American workingman's standard of living" and fought for higher wages as industrial productivity advanced.

The progress of scientific technology after the Civil War, and of scientific management after the turn of the century, rapidly raised the nation's capacity to turn out goods and services. Organized labor on the offensive in the labor market, and proprietary and professional management on the defensive in the capital market, transmuted this productive potential into both business prosperity and consumer satisfactions through the feedback of free household spending. It is worth remembering that pious plutocrats preaching to their workers the gospel of "Christian thrift" were at the same time perfecting the art of "the hard sell." Only belatedly did Henry Ford articulate the idea that there had to be mass consumer purchasing power if the plant we were build-

ing up was to be fully utilized.

As professional management has more and more accepted the high-wage formula, new concepts of the constructive role of consumer credit and new practices in its extension have come to the aid of free spending in the household sector. The old rugged individualistic virtue of cash purchases always had an exception in the purchase of a farm or a home. With the emergence of the automobile another exception had to be made if the economy was to capture its expansion possibilities. The appeal of "enjoying while you pay" has done much to institutionalize the free consumer spending that feeds the stream of merchant's reorders, manufacturing schedules, and the number and size of pay envelopes.

Faults of technique

Of course, spending by households, just like spending of business firms, may get out of hand. There is such a thing as overdoing a good thing or doing not enough of something else—from the physician's, the esthete's or the economist's point of view. Overspending may thus lead to "bad debts," repossession or even bankruptcies. But these are not arguments against spending as such. They are faults of technique, to be remedied by educating the individual consumer in the art of

spending wisely and safely, not by urging or forcing mass private spending to take a slower pace.

The fact that consumers did not button up their pockets when recession threatened in late 1957 helped importantly to arrest the downturn and hasten recovery. Consumers went on spending freely because they saw signs that business spending and government spending would be substantially maintained. Business spending kept at relatively high levels because managements observed that consumer spending was not collapsing and because they had assurance that government spending would continue and even rise.

Thus our problem of government spending is set in its perspective of the relations within the total economy—not viewed as some new and malignant growth in our business life. Each of the three legs of the tripod of national prosperity depends on the other two, and each must meet its own peculiar strains.

The typical American citizen has shown in the past and perhaps still shows a fundamentally different attitude toward government spending than toward family spending and business spending. Starting from the oft-repeated proposition that "that government is best which governs least," it has seemed to follow that that government is best that spends

least. But proposition and corollary have been subject to much re-examination recently.

Presumably the basic reason why businessmen are satisfied with vigorous business spending and why consumers are satisfied with free family spending is because they themselves decide what to spend for, and they themselves get directly the benefits of such expenditures. Public spending, on the other hand, has its pattern determined by some second parties, legislative or administrative, and what is bought in this manner is not delivered directly to the same persons as those who pay the bill. It takes more economic sophistication, therefore, to see the functional relationship of public spending to national prosperity.

Obvious and excruciating

Even so, it is a little startling to hear businessmen, accustomed to the processes of double-entry bookkeeping, refer to the figures of the federal budget as an amount "the government draws out of the economy." Obviously, every dollar that the government budget takes out of the company treasury and the family income is promptly put back into the national income stream in payment for personal services or the procurement of goods. The informed citizen may legitimately quarrel with (a) methods of government spending

that contribute to inflation; (b) wastes of overstaffing, subsidies to special interests, or encroachment on areas of economic activity which private business organizations are able and anxious to exploit; and (c) spending patterns that result in poor allocation of the nation's economic resources.

The issue of waste is so obvious in principle and so excruciating in practice, in our political world, that I shall not discuss it here.

Inflation is a real and present danger, but it is a danger purely of our own making. If we the people are sufficiently businesslike to tax ourselves to pay the spending bills that we the people incur through our representative government, inflation cannot get out of hand. The books balance over the years, by being overbalanced in boom times and underbalanced in recession years. It is not an unbalanced budget in a given year that spells danger, but *a budget out of control*.

On the issue of spending magnitudes and patterns, public expenditures are certainly much too large. They drain off into the unproductive activities of war almost 10 per cent of the annual national product, but this misallocation of national resources is primarily forced upon us by the Kremlin. We must, however, be on our guard lest this threat be the excuse for padding the military budget with

billions whose real function is to serve the vested interest of military personnel and suppliers. Widespread "conservative" opinion believes that our present state of prosperity-with-preparedness nevertheless demands, for its continuance, smaller public spending than we now have. Granted that we should relentlessly root out waste, I do not see that the economics of the case argue for reducing the flow of income to the government. To say this is not to espouse socialism, but to emphasize the growth and stability of our free enterprise system.

A prime duty

I am a lifelong antisocialist. Economic history and analysis seem to me to show that government ownership and operation of basic industries is economically harmful. The production of food, clothing, shelter, transportation and much of education and entertainment can be more efficiently organized and sensitively directed through the mechanisms of the free competitive market. Indeed, it is government's prime duty to see that it is competitive. But in our rich and highly productive country there is a large number of services and satisfactions that can be financed and allocated most economically and most beneficially on a community basis.

Education has always been sol-

idly established in the public sector, while allowing great freedom to private profit-seeking enterprise around the fringes of this area. There seems every reason to expect that public spending for education will increase not merely absolutely but as a proportion of national income. The signs point likewise to fuller government support of research in a wide range of disciplines.

I expect that governments will be authorized by the voters to underwrite a much more complete public health program, under which, I hope, private practitioners will direct actual administration in a zealous effort to maximize service to the whole people. Finally, I anticipate a further extension of Social Security measures, which have operated so effectively to stabilize the economy.

A genuinely free enterprise system implies not only freedom of individuals to use the large corporation and the large union as their organizing agency, but also freedom of voters to use the local school district, the municipality, the state and the federal government to activate and direct our local and national productive resources. We shall in all probability see more money flowing through public treasuries on its way back to the open market. This is the logic of a full employment, high productivity economy. ■

THE ECONOMISTS AND THE RECESSION

The experts disagreed on what to do about the recession, and they are still debating about what should have been done

by Leonard Silk

■ NOW THAT THE fog of battle is clearing after the recession, we may begin to analyze the nature and effectiveness of government strategy to check and reverse the 1957-58 decline. As happens after every economic or military campaign, the generals and staff officers have begun writing their memoirs, justifying their old positions and assailing critics of their strategic designs.

There were two sets of conflicts among economists and government policy-makers early in this last recession. The first concerned appraising how serious the recession would be. Most economic analysts were convinced by the end of 1957 that the nation was facing the most serious recession of the postwar period. Their reasoning was

that the economy was being forced downward by a concentration of pressures, including a drastic reduction of inventories, a sharp cut in business plans for capital spending on new plants and equipment, and a mass movement by consumers to reduce their debts and their outlays for durable goods, especially automobiles. Quite a few were worried that "the recession would begin to feed on itself."

However, a rather small minority of economists—but an extremely influential one, since some of its leading representatives occupied key positions within the Administration—insisted that the new recession was unlikely to be much more troublesome than its mild postwar predecessors. This view was spelled out in the President's

Economic Report of January, 1958, which added that "a considerable adjustment in inventories has already taken place, and present holdings are generally not heavy." This was written just before businessmen really began to slash inventories with a passion unprecedented during the postwar period, at an annual rate of nearly \$10 billion.

"The confidence of business concerns in the economic future," the President's January Report went on, "is evidenced by their long-range plans for the expansion and improvement of production facilities and the high rate at which they are carrying out these plans." By the second quarter of 1958, capital spending was running at a rate of \$30 billion, 20 per cent below its 1957 level.

Unemployment jumped to new postwar highs, about 7.5 per cent of the labor force. The majority of economists—the pessimists—felt that the recession was turning out even worse than they had expected. They blamed the Administration for whistling in the dark. But the "beginning of the end of the decline" was at hand, the Administration's spokesmen insisted in the spring.

With such differences in appraising the gravity of the recession, it was inevitable that the second chief area of conflict among economists would be over the size

and character of government measures to check the recession. Should the Administration call for a "massive" tax reduction, or a big boost in government spending—or neither? Some economists, especially a group closely identified with the liberal wing of the Democratic party or Americans for Democratic Action, favored a big increase in government spending and opposed tax cuts. They thought bigger government outlays were a surer way of fighting the recession and, seeing growing needs in many areas from defense and foreign aid to education and urban rehabilitation, did not want to see the tax base contracted.

But most economists—including most of the middle-of-the-road Democrats, some of the liberal Democrats, and most of the liberal Republicans, led by groups like the Committee for Economic Development—wanted the emphasis put on a sizable tax reduction that would stimulate business investment and consumption.

The Administration, with the backing of its own economic advisers—that is, those on the official payroll—belatedly decided that it wanted neither a tax cut nor a huge increase in government spending. It proposed more moderate measures, especially easy money, liberalized credit for housing, and an increased rate of defense order placement.

The Administration knew that it would arouse a gale of professional economic opposition. At the recent Chicago convention of the American Economic Association, Gabriel Hauge, who had been the President's special assistant for economic affairs during the recession, reminded his colleagues that most economists had favored a tax cut as an antirecession measure as late as May—when, as hindsight now reveals, recovery was already under way. "As a matter of fact," Hauge recalled, "I received a letter during that period from a distinguished and conscientious fiscal expert stating that, if the Administration did not endorse a temporary tax cut, such a failure would be thought of a generation hence in the same category as President Hoover's failure to take the advice of a thousand economists to veto the Smoot-Hawley tariff legislation in 1930."

"Major factor"

Among the distinguished economists who so ardently supported a tax cut was the former chairman of Eisenhower's Council of Economic Advisers, Arthur F. Burns. By the time the 1957-58 recession broke, Burns was back at his posts at Columbia University and the National Bureau of Economic Research. Even after the economy was experiencing a firm recovery, Burns has continued to maintain

that his tax-cut recommendation was correct.

In late November, 1958, Burns argued that federal spending programs started during the recession have been a "major factor in exciting expectations of inflation that are now spreading dangerously." Burns held that the Federal Reserve authorities had to start tightening credit expansion at an early stage of the recovery; if this were effective, it would chiefly limit the expansion of private enterprise and private spending. So the shift toward the public sector, set in motion during the recession, might continue both because federal spending was in a "rapidly rising phase" and because "credit restraints have an uneven impact on public and private enterprise."

Burns also argued that a broad tax reduction was more likely to have prompt effects in stimulating private spending during the recession, when it was needed, while the effects of a boost in public spending might not come until the recession was over. "When public expenditures finally begin rising," said Burns, "they may stimulate the economy when special stimulation is no longer desirable." The tax-cutting solution, Burns held, was "less likely" to have an inflationary effect.

Hauge had some powerful replies to these arguments, at least as to their relevance during the

real political-economic setting that confronted the Administration in 1957-58. First, said Hauge, the question was never one of a general antirecession tax cut or additional government spending. The government had been forced to increase expenditures, in most cases for reasons other than antirecession aims. These expenditures did, of course, have an antirecession effect, and a tax cut would have had an excessive impact. Thus, the revised estimates for fiscal 1959 expenditures showed a \$5.3-billion increase over the January figures. Hauge said that \$2 billion of this increase could be attributed to conscious antirecession effort, with more than half going into housing and most of the remainder being devoted to supplemental unemployment benefits and a small expansion of public assistance and public works. Hauge added, "Only a small part of those added outlays (that is, of the \$2 billion) at best would have been deterred by a tax cut. As it was, only the President's veto or opposition stopped some \$5.5 billion of additional spending from being enacted into law in the name of antirecession policy."

Harsh criticism

The balance of the increase in spending over the January estimates, a total of \$3.3 billion, was made up of a scatter of factors not related to the recession. Impor-

tant items were a \$1.8-billion increase in payments to farmers through the price support program and \$500 million more to national security, partly as a response to the Russian Sputniks. The President could not have stopped the farm payments, and he had to face harsh criticism from the political opposition for too laggard a response to the Soviet missile-and-rocket lead.

Second, Hauge said, the Administration would have had "the gravest kind of difficulties" in getting the kind of tax-cut bill it wanted from Congress. Moreover, would a tax cut have had much effect in stimulating consumer demand for autos—when consumers were simply "off" 1958 auto styles? Would a tax cut do much to stimulate business investment when there was widespread evidence of excess industrial capacity?

Third, said Hauge, a temporary cut was "an idea so novel that it was not taken seriously in many influential quarters in Washington."

Hauge made it clear that he was not opposing tax reduction as an antirecession measure in general. He recalled that the Administration had watched tax reduction apparently work wonders against the recession in 1953-54. But, said Hauge, "in contrast to the situation in the 1953-54 recession when

expiring tax legislation was roughly satisfactory in timing, kind and amount for anticyclical purposes, such was not the case in 1958."

But the Administration—and even the pessimistic economists—did underestimate the force of the recession. It consequently opposed a major tax cut, but it could not block an increase in expenditures. Yet those bigger outlays did not really come into effect until fiscal 1959—a few months after recovery was already under way. What then arrested the sharpest drop in the postwar period?

The principal recovery factors were undoubtedly the result of government discretionary action and of the "nondiscretionary" built-in stabilizers, augmented by certain "windfall gains" to an antirecession program:

The chief discretionary policies were (a) the liberalization of money and credit by the Federal Reserve; (b) heavy government support for housing; and (c) a huge increase in the placement of government orders for heavy military equipment, from an annual rate of \$8.5 billion in the third quarter of 1957 to more than \$20 billion in the first quarter of 1958.

The built-in stabilizers, mainly the contracyclical rise in unemployment compensation and Social Security benefits, together with the decline in tax obligations of individuals and business firms,

worked beautifully to insulate personal income from the shock of falling production and rising unemployment.

The "windfall" antirecession measures, chiefly a boost of more than \$1 billion resulting from earlier legislative changes in the Social Security program and a \$780-million increase in the pay of government employees, lent further support to personal income.

Checked and reversed

In consequence, while industrial output was falling more than 12 per cent and GNP nearly five per cent, personal income declined less than one per cent. The consumers stopped the vast inventory liquidation. Additionally, even before money began to flow, the placement of new government defense orders helped stabilize business expenditures.

The government policies that checked and reversed the 1957-58 decline will force a fresh evaluation by economists of the efficacy of monetary policy, housing credit policies, the built-in stabilizers, and of government ordering (rather than just actual spending) as contracyclical weapons. However little the recession was fought on textbook lines or by fully understood programs, it did succumb to contracyclical forces in the economy and the government programs and policies that did come into

play. It is reassuring that government actions of these dimensions could be so effective against the formidable recession forces.

The dimensions of government action to counter the recession, however, should not be underestimated. It would be a serious mistake to conclude that the economy underwent a quick snapback as a result of its natural and inherent flexibility, or even as a result simply of the "built-in" stabilizers. The minimum extra stimulus to the economy provided by a government is indicated by the approximately \$15-billion deficit in the federal Treasury's operations during fiscal years 1958 and 1959. The effect was increased by the more than \$3-billion annual growth in state and local government outlays and by a sizable fraction of the great boost in government defense orders that occurred from the third quarter of 1957 to the first quarter of 1958.

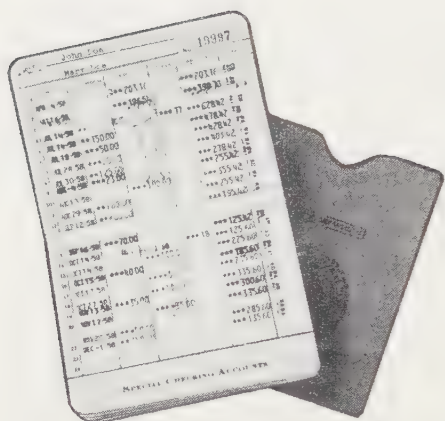
Should a tax cut have been made? It seems unlikely that a tax cut in 1958 could have been enacted in time to have arrested the recession and stimulated a recov-

ery as rapidly as those measures which were adopted. The remaining question is whether a tax cut, which would have come into effect in July, 1958, might not still have been a good idea—and might have generated a more rapid recovery, which would, in fact, have reduced the fiscal 1959 budget deficit by increasing tax revenues. There is a good chance that it would have. But if this recovery carries us rapidly back to full employment without a tax cut, then one would be forced to conclude that a tax cut would have proved to be too stimulating.

Wesley C. Mitchell used to say that no two business cycles are quite alike. To that proposition there is an obvious corollary that emerges from postwar government experience: no two ways of devising antirecession policies can be alike. Each must be related not only to the character and timing of each recession, but also to the unique set of political forces then affecting the nation. Economics remains part of the political art, not simply an exercise in logic, statistics and mathematics. ■

Conversation Piece

AMERICANS have more than half of the world's telephones—more than 37 per 100 people—compared with only four per 100 for the entire world. New York and Chicago, with a total of more than six million telephones, have more than the entire continent of Asia, where more than half of the earth's population is concentrated. New York City alone has more telephones than there are in France. Our 49th state is the world's most talkative telephone area; in 1957, Alaskans averaged 581 telephone conversations per person.



the economics of marriage

by Clara Eliot

Love is a basic ingredient, but sound business principles contribute to a happy union

■ MARRIAGE has always involved economic considerations. Bride purchase in primitive tribes is a blatant example. In earlier days in Western societies, the young man's prospects were investigated by the girl's father, and her dowry was a matter of concern to the young man, or at least to his parents.

The institution of marriage today has changed in many respects, but the economic angle is still important. Mature individuals know that family economics involves an "allocation of scarce resources among numerous competing wants," decisions between *his* wants and *her* wants, between the need for dental care and the need for a new car, and between present needs and future security.

Young people today must make their vocational adaptations in a world of specialization, automation and corporate business. They can begin to make a realistic appraisal of their situation by viewing the occupational context of their lives.

The young man's vocational choice and level of training are major determinants of the family income. Thus the average income for self-employed professionals is more than double that for service workers. In the professions, recent figures show that 57 per cent of those in medicine earned \$7500 or more, while 40 per cent in law and only four per cent in education reached the \$7500 figure. An undistinguished lawyer, however, may earn less than a man of no greater ability who is an enthusi-

astic teacher or salesman. Wisdom would dictate that the door be kept open in the early stages of any marriage for a possible change of vocation. Young wives should realize that their husbands will live longer and earn more in the long run if they have work which is congenial to them.

In contrast with the situation of earlier generations, the wife's position as an economic contributor is frankly accepted, if not counted on by the husband. The bride's dowry is now in the form of a college degree or other training that will enhance family earning power. She will typically be "gainfully employed outside the home" until the children arrive.

That young people are sensitive to their responsibilities in undertaking marriage is apparent to anyone in touch with college youth. The personal finance course I teach in a fairly uncloistered women's college has been enlivened by the presence of numerous engaged girls and young wives, who raise such questions:

- "My parents do not want me to get married until I have worked for a year. I am trying to persuade them that I can get my work experience after we are married. Aren't my parents just being old-fashioned?"

- "A married friend tells me that everyone in the suburban development where she lives is so

far in debt for house, auto, TV and kitchen equipment that time payments take a major part of each month's pay check. How did they get into this? Is it necessary?"

- "My fiancé and I want to get married as soon as I get out of college. My mother is a widow and she has given out all her money to educate me. I feel responsible for her. How can I enter marriage with this extra financial burden?"

In scholarship committee meetings I hear of situations that have risen due to lack of planning by the students' parents or to unforeseen circumstances. The trust fund for a student's education would have been adequate if tuition and other costs had not more than doubled. Or the illness of a mother or father wiped out savings.

In view of all the special and individual circumstances surrounding every case, and in view of all the risks, insurable and uninsurable, it would seem folly to make any rigid recommendations for planning the financial aspects of the new family. It would, however, be even worse folly not to try to plan, not to try to make the choices in the light of long-range hopes and standards.

Out of my own experience, whether at first hand or vicarious, certain generalizations have emerged:

- Not only the husband but also the wife should have had earning experience, even if just summer or part time, before marriage.

- There should be full discussion and shared information between husband and wife on financial matters.

- In planning, flexibility or readiness to adapt should have high priority.

- There is absolutely nothing so important for mental health, for increasing the range of opportunities, for long-run happiness and growth, as an old-fashioned nest egg. This should comprise straight life insurance as a minimum and, when feasible, some "money in the bank" or securities in the safe.

Confidence and understanding

Why do I stress so strongly the desirability of job experience on the part of the wife? Such experience gives her confidence in herself and practice in handling financial records and in budgeting. If she liked her job, she knows how she can occupy herself when her children are grown and no longer need her; if she hated her job, she will be less envious of her employed friends when household routine gets irksome. The wife will better appreciate her husband's occupational problems, will back him up through crises and changes, and will have sense

enough not to nag him into ill-timed requests for raises.

Why is the early and continuous sharing of information and planning so basic? Let us assume that the engaged couple can come down out of the clouds to consider ways and means. Facing the realities and uncertainties of future income and expenses requires a difficult calculation of unknowns, but the process is a useful test of itself. If two people contemplating a lifelong partnership find themselves evading issues, or differing profoundly regarding their goals and standards, it would be better to make that discovery now than later.

I have students who are already building joint savings accounts with their fiancés. I have seen vocational plans of engaged girls change. Longer-range plans would have to take into account many contingencies—the husband's probable income, the desired number of children, possible dependency of parents or other older relatives, and possible inheritance.

It should already be apparent why flexibility is a *desideratum*. Long-run growth may necessitate a geographic relocation and the disposal of the home. A threatened nervous breakdown may necessitate a vocational change. Adaptations may be required to reduction in income or the occurrence of unanticipated expenses—a new baby,

a disabling illness, an automobile accident, a lawsuit.

Flexibility depends in part on temperament and intelligence, but also on having a backlog of resources. This ideal, old-fashioned as it may seem today, is not as impossible for most young people as some believe. It has always been true that some people can save on an income that other people find barely adequate for current consumption. Here lies the opportunity for studying and applying the arts of consumption. Time purchase usually costs at the very least 10 per cent more than cash purchase. It is not mean-spirited but simply intelligent to "shop around."

Frame of reference

If expenditures continually press on income, the whole pattern needs rethinking. Are there any ways in which the income can be supplemented? Can the wife give French lessons or music lessons, or tutor a neighbor child in arithmetic? Can an extra room be rented? If income is fixed, should the whole standard of expenditure be re-examined?

These four principles provide only a frame of reference in which a specific problem, with all its special circumstances, can be analyzed. To answer specific questions one would ordinarily start with the phrase: "It depends."

"How much debt can we wisely assume?" is a question which cannot be answered merely in terms of a debt-income ration. The wisdom of borrowing or time purchase depends on the temperament of the borrowers, income expectations, expected changes in price level, purpose of the borrowing and terms of the loan. If the level of living entails an amount of debt that constitutes a "worry" to the family, or such that a major part of each pay check is committed, or if the debt seems always to grow and never to shrink, then borrowing should be curtailed. Some people, on the other hand, should be persuaded that there are purposes for which borrowing is legitimate—the "productive" loans which increase the income or decrease the expenditures, like education or home loans.

Young people are concerned about the question of how much and what kind of insurance should be carried. The amount depends on current income, other possible resources and number of dependents. However, a safe start on an answer would be: "The more the better," always remembering that straight life insurance builds up cash values that can become the basis for retirement income. Insurance and all other savings, however, are subject to inflation, and need to be balanced by investments in real estate or in equities.

"To buy or to rent?" is a question being settled in favor of home ownership by an increasing number of young couples. Since this decision involves the largest financial commitment a family makes, it deserves the most careful weighing. With an eye to flexibility, it would be well to buy with the thought of possible resale. In a survey of faculty incomes and expenditures, I found among homeowners both the most complacent and the most depressed people I interviewed.

"How many children can we afford?" Again, "It depends." Is the couple healthy, with good life expectancy? Will there be any inheritance from their parents? How do they picture educating their children? Even the immediate costs of having a baby—the doctor, the hospital bills, the layette—have a wide range. Expert advice may be helpful, but most experts have their own biases, and the final judgement must be made by the couple who will live with the consequences. To talk with outsiders can bring to bear more variety of experience and background, and help to clarify the issues.

Any marriage can run into catastrophe or tragically unsolvable problems. Our life expectancy is greater today, but we have not eliminated mental disease. We have actually increased the problems of old age and the degenera-

tive diseases. While all these risks involve far deeper tragedy than just their financial aspects, it is still true that there are few troubles that cannot be ameliorated by having money to spend. There is, of course, nothing new or modern about these risks. If they seem graver today, it is because we no longer accept them as the will of Providence.

What are the more positive elements? We have largely done away with some old risks; witness the practical elimination of diphtheria which used to wipe out whole families. We have built up various patterns of community service to be called on when trouble strikes. The Social Security provisions and the higher level of education are also positive factors. Young people are discovering how voluntary cooperation can help solve many economic problems. Car pools, tool sharing, cooperative nursery schools, neighborhood recreational programs—all these require intelligent planning and leadership, and enable families to raise their level of living and increase their sense of security.

The spirit of the young people themselves is a most encouraging factor. They accept the risks as normal, do their planning accordingly, and feel no envy of their elders who, after all, survived two World Wars and a depression. ■

Paul H. Douglas— Senator's Economist

■ IN AN AGE when the problems of economics are becoming increasingly central in government affairs, it is reassuring to some that we have a Senator who is a trained economist. They feel that Paul H. Douglas (D.-Ill.), who will be 67 this month, exercises a salutary influence on colleagues less well acquainted with the possibilities—and limitations—of economic statesmanship.

This feeling, however, has not been shared by the two Presidents who have had to deal with a Senate more or less influenced by Douglas. Although a Democrat of the New Deal variety, he was as resistant to the programs of Truman as he is to those of Eisenhower. This recalcitrance is due to a cast of character that permits Douglas to be defined more accurately as a maverick than as a



Democrat, a New Dealer or even as an economist.

If Douglas can operate with the idiom and techniques of an economist, he persists in dealing much more largely with his world. Indeed, one observer, while not presuming to call the Douglas

qualifications into question, described the Senator from Illinois as one-tenth economist and nine-tenths politician. Douglas' activities in civil rights legislation and his temerarious antifilibuster struggles indicate a range of interests that cannot be contained by a well-turned demand curve.

A Senator since 1948, Douglas got his first preparation on the Maine farm of his uncle, where he grew up. The uncle subscribed to the *New York World* and the era's muckraking magazines, and Douglas' heroes were the elder La Follette and William Jennings Bryan.

Douglas established himself as an economics professor at the Un-

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

iversity of Chicago. He won respect from his economist associates with a book-length prize essay, *Theory of Wages*, and another study, *Wages and the Family*. The first was more compendium than theory, coming to the not overwhelming conclusion that wages are determined by the same demand-and-supply forces that influence interest and rent: "wages . . . are fixed at a margin which runs through society as a whole."

The second work, with its concern for welfare questions, was closer to Douglas' taste and led to his public activities.

In the early 1930s Douglas, while participating practically in community affairs, had isolated himself theoretically from most of his fellow citizens. He wanted to nationalize the key industries and, accepting the idea of one conservative party, proposed the disappearance of the Democrats in favor of a left-wing party.

But a visit to fascist Italy in 1935 convinced him of the presence of dangers that demanded immediate action. Forced to compromise with practical reality, Douglas found himself working agreeably with political bosses. He was a Democratic member of Chicago's Board of Alderman from 1939 to 1942, usually acting as a minority of one against 59 ward politicians.

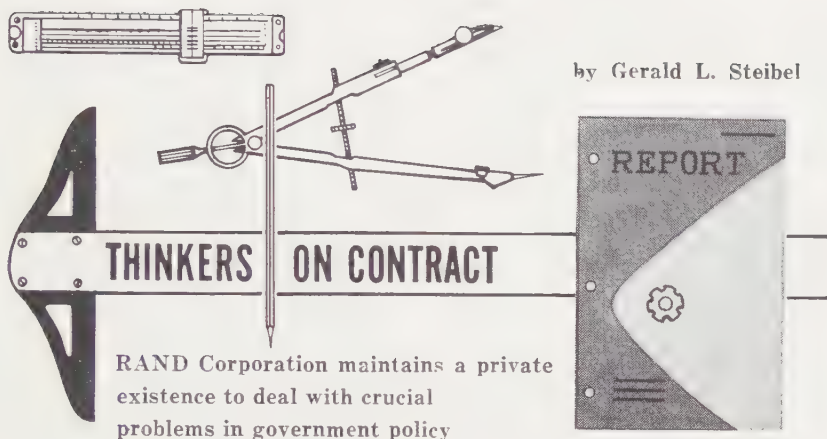
Douglas felt he had to participate actively in World War II and

he unabashedly used favoritism to override the disqualifications of bad eyes and teeth and to become a 50-year-old Marine private. Assigned to a staff job as an officer he neglected his paper duties to such effect that he was twice wounded, the second time seriously. If the heroism sprang exclusively from his overactive conscience, it was a political asset and helped put Douglas into the Senate.

Douglas looks like a Senator, with his tall, rambling frame and dramatic white hair. If he was rated "best Senator" by Washington correspondents in 1951, most of his fellows do not agree that he is their kind of Senator. Douglas has comparatively little influence in the Senate, whose meticulous rules of social intercourse he prefers to ignore.

Once the admirer of "free-silver" Bryan, Douglas irritated Truman by his opposition to that president's easy-money policy, and he regards inflation as a major problem. Once a "socializer," he calls himself a "diffusionist," advocating the dissolution and not the nationalization of monopolies.

It is too easy to find inconsistencies in the Douglas career. Asked what made him run, Douglas once replied, "I'm for the little so-and-so at the bottom." His life has never been inconsistent with that principle.—D. F.



RAND Corporation maintains a private existence to deal with crucial problems in government policy

■ WHEN THE GOVERNMENT goes beyond ordinary civil service recruitment to contract for research, it is bringing together into one compound two of the oldest values of civilization: the interest of the polity, and the interest of the individual. How do the two mix? What kind of product results?

In contracting for research rather than setting up its own research organization, the government is recognizing the prerogatives of the researchers and agreeing that the best use of research requires a respect for those prerogatives. The use of the contract, a private device, to secure public ends is an essay in almost pure pragmatism. The pressures of World War II and the events in its train did not permit exhaustive thinking out of basic principles. In order to get on with the tasks

at hand, researchers went to work for national goals, leaving the details to be settled in the course of experience. The results "worked," and most of the important research was organized under the contract arrangement.

The most sensible way to make a pragmatic beginning was to utilize existing resources. One such resource was the Cross-Cultural Survey, which had been functioning at Yale University since 1937. For the Coordinator of Inter-American Affairs, a Strategic Index of the Americas was prepared, based on 488 sources and totaling 22,663 pages. The Index was supplemented by maps, charts, photographs and other materials needed in the task of building sympathy for American World War II aims among the Latin American countries. A Navy project pro-

duced handbooks for those Pacific islands which the Navy found itself administering during the course of the fighting. Thus, a seemingly impractical academic diversion had specific military and administrative values.

But newer applications of research were required, which meant newer types of research organizations. A second group of organizations was set up to deal with operations research or systems analysis. Operations research came to the fore in wartime when it was demonstrated that mathematical techniques of analysis could solve problems like that of improving the "kill" efficiency of the fuse timers on depth charges. Thus it was discovered that the timers had been set to explode too soon.

Principle of inquiry

Operations research did not concern itself with the design of the weapons, but with their use. The "opsearch" experts did not ask how the timer could be improved—that remained the problem of the weapons technician—but how it could be used more effectively. Opsearch dealt with more complex problems, of course, all based on the principle of inquiring into the probable results of several courses of action. In the case of the timer, it studied the different results of various fuse settings. In broader problems, opsearch inquired into

the effects of various allocations of resources to attain a given purpose, perhaps capturing an island or supplying a fleet division with oil. Opsearch was thus research for decision-makers—whether they were military officers or business executives.

The importance of accurate decision-making was underscored emphatically as weapons became more costly and more complex, and as the involvement of all the sectors of society in warfare became clearer. The Army contracted with Johns Hopkins University to establish an Operations Research Office to deal with various kinds of weapon "hardware," and with George Washington University for a Human Resources Research Office to deal with "human" factors like personnel and psychological warfare. The Air Force preferred not to work through a university; it established a legally separate corporation, the RAND Corporation. In practice, ORO and HUMRRO exercise the same amount of freedom as RAND, and all three work closely with their patron armed service.

RAND, the oldest of the three, was a conception of General H. H. Arnold, who saw it as a link—the name means "Research and Development"—between the Air Force, the aircraft companies and the academic world. Originally a unit of Douglas Aircraft, RAND was

incorporated in 1948 with a board of directors drawn from industry, the foundations and the scientific fields it represented. Its general task was to explore for the Air Force the implications of the new nuclear weapons, delivery systems and defense mechanisms. As matters evolved, RAND tended to concentrate on research, leaving development to the companies. RAND's mission became one of gathering all of the relevant scientific research being performed anywhere and interpreting it for both the Air Force and the companies. Essentially, its work is the application of computation to a complex of factors which concern warfare in the broadest context. For example, both RAND and ORO soon found that warfare had a deep concern with costs and production capacities and with the intentions, as well as the capabilities, of the enemies likely to be encountered. Both organizations, therefore, brought in economists, psychologists and Communist-studies specialists to be members of the "working" teams.

More active role

Under a third type of contract, the Air Force became a partial participant, using the resources of the Russian Research Center at Harvard. It thus had a more active role than in the case of ORO, HumRRO and RAND, where it re-

mained a client but did not actually join in the research.

The Air Force used the Center for a study in depth of Soviet life and institutions, a happy arrangement from many viewpoints. Under Air Force sponsorship, survey interviewers were enabled to conduct intensive research with former Soviet citizens and returning German nationals in Europe. Twenty interviewers spent a year in Munich obtaining 337 life history interviews, 375 specialized topical interviews and more than 1,200 written questionnaires. A range of works from intimate personal portraits to specialized treatises on the Soviet managerial techniques has been added to the literature in the field, and the methodology of survey research itself has been improved as a consequence.

In all of these arrangements, the armed services provide complete logistical support, including government transportation, overseas billeting, messing facilities and even assimilated rank in case of possible capture by the enemy. In turn, researchers in overseas areas come under military jurisdiction and control. The collaboration among government, industry and research has been highly successful. The RAND experience has given the armed services valuable guidance in reaching decisions. At the same time, it has helped

stimulate development in the industries upon which the Air Force depends for its machines. The academic community has derived a wealth of knowledge, not alone of physics and mathematics, but also of Soviet affairs, economics and a host of other subjects. Most importantly, RAND has helped military officers, industrial managers and research scholars to work better in tandem.

Queuing theory

Beyond these immediate accomplishments, the flood of research work has provided a floor within the universities for all sorts of individuals, from graduate assistants to full professors. Even where a university did not have a direct contract or subcontract, the inflow of students destined for government-sponsored work created a demand for more teaching positions.

Furthermore, the techniques developed on government-financed research proved highly applicable to ordinary industrial problems. A large number of private concerns now employ operations research techniques to solve their own problems. For example, queuing theory involves the use of probabilities to determine how long a person or a product must wait to be served or processed, as the case may be (see *Programming Decisions*, CHALLENGE, November, 1958). It can be

applied equally well to the supply of spare parts for military ordnance depots or to the handling of customers at supermarket check-out counters. The manpower allocation principles researched for military needs work in the same manner for staffing the electronics and the meat-packing industries with competent personnel.

But the contract system is essentially a compromise, and, like all compromises, it represents merely an agreement to set aside conflicts in order to get on with a job. It would be futile to pretend that it has resolved those conflicts. It still remains true that there is nothing more public than government and nothing more private than research.

First, the contract with the government is an invasion of the researcher's right to ask whether the problem posed really is the problem. Frictions between the service officials and the researchers have arisen when researchers have insisted upon going along roads of their own choosing. One such official used to lament, "Don't tell me what's wrong with my operation; I know that very well. What should I *do*?" Invariably, the researchers would reply, "We are researchers, not operators; what you do is your problem, not ours." The research organizations have insisted upon their right to follow what the military has consid-

ered side paths, at least to some degree, and the military has gone along a certain distance. But the division remains.

The effects of this split have often shown up more clearly at the subcontract level, where researchers not initiated into the ultimate purpose of their work have provided increments of knowledge rather than, say, weapons or enemy vulnerabilities. This has been especially true in the area research studies, where whole studies of cultures have been turned out which were, of course, considerably remote from the problems of persuasion or destruction in which the military were interested.

"Gobbledegook"?

Researchers and military alike have often reacted to each other's unhappiness with increasing personal truculence. Communication between the two has most often broken down over the question of interpreting research results. The officers complain that the researchers write "gobbledegook," and the researchers growl, "If they can't understand it, let them hire someone to translate." While some of the disputes are ludicrous, they nevertheless help point up the differences between the military and the academic subcultures.

Some of what underlies the struggle was revealed by one of

RAND's senior economists, Dr. Burton Klein. In the May, 1958 issue of *Fortune*, Klein attacks the planning and the "management experting" which, he asserts, are strangling the nation's research and development effort. Research simply cannot be that planned, he says, and what we need are more, not less, competition, duplication and confusion. The belief that you can deduce everything beforehand (Klein calls it "deductive-itis") is disastrous because it is only through experimentation, with all its "waste," that progress can be made. Klein locates the center of the blame in the thinking about all research in terms of the final weapons system. His words are a clear expression of the split between the government goals, which are governed by accountability, and the research goals, which are committed to freedom and experimentation.

Not all of the problems arise between government and researcher; some are rooted in frictions between researcher and researcher. One of the trends of government-oriented research has been toward a sharp emphasis upon the more exact methods of physical science. Since most of the research products are in the "hardware" fields, the physicist and the mathematician have assumed an inevitable primacy, sometimes to the point where they become condescending

toward their colleagues in the "social" sciences. These tensions are not, of course, brought about because the research is performed for the government, but they are greatly heightened because that research is heavily weighted in one direction, toward specific "hard" results.

The social scientists have reacted in two characteristic ways: first, they have sought to be as "quantitative" as their loftier colleagues, often measuring what could not be measured and rushing after topics which looked as though they might be measurable, or, in the researchers' favorite word, "quantifiable." And, second, the come-lately quantifiers—particularly in psychology, economics and sociology—have turned upon their less-fortunate brothers in history, philosophy, and other not-so-quantifiable areas, treating them with the acerbity which only the victimized know how to dispense so well.

A thick screen

Since all of this goes on behind a thick screen of solemn pronouncements of respect for each other's methods and vital role, the situation is mildly comical, except when it spills into the open as it did in Congress during the Reece Committee hearings. Pendleton Herring had to defend "empiricism" against charges that

empiricism was some godless nonsense with Bolshevik overtones.

While the question of whether the cult of quantification has diverted research energies cannot be satisfactorily resolved, there is probably less doubt that applied research—research directed toward a selected area of problems—is slighting fundamental research. No matter how often the academicians point out that the meanderings of Einstein, Curie and their like led to the real scientific breakthroughs, the budget makers cannot be convinced that tax money should be spent supporting people whose perceptible activities consist largely of staring out of windows.

Individual act

The stubborn facts, as William James put it, seem to have made only tactical concessions. Creativity is still an individual act, despite the modern prestige enjoyed by the "team" idea. And, even where researchers agree to pipe for the government, they hold out obstinately for at least some tunes of their own. No one should be deceived, because of the very genuine accomplishments of such compromises as the RAND operation, into believing that all is now for the best. We should not be diverted from asking continually whether the price paid for those accomplishments is worth it and whether there is not some other way. ■

taxes and investments

While taxes have little effect on the incentives of individuals to invest, they do influence the kind of investment selected

by C. Lowell Harriss

■ THE TAX POWERS of the various levels of government have probably had little net effect on individual incentives to keep wealth invested. Taxes do have considerable influence, however, on the incentives of people, the wealthy and the not so wealthy, *to select one type of investment over another*. So much for conclusions. Now, to justify them.

Unfortunately, systematic knowledge about this range of topics is distressingly limited. The leading study, made at the Harvard Graduate School of Business Administration, deliberately focused on a relatively small portion of the public, those at the top of the income scale. And it rested on data now almost 10 years old. Nevertheless, we can say a good many things with confidence.

Present tax rates may, or may not, impair incentives to work. But with perhaps two minor exceptions, I can see nothing in tax

laws to create a rational *preference for idle cash over an asset that will yield income*.

One exception exists when a person with large income believes that the after-tax yield of a short-term investment is not worth the trouble of buying and selling, while for other than tax reasons he wishes to avoid a longer-term commitment.

A second exception may grow out of the fact that the tax treatment of losses and gains is not symmetrical. A person who believes that for one in his tax position the market does not adequately appraise the chances of loss versus gain may prefer to hold cash.

But the cases in which this is wiser than investing in essentially riskless forms—Treasury bills, short-term municipals, savings accounts, or other “near monies”—must be exceedingly rare. I cannot believe that the amount of

wealth individuals hold in idle cash because of taxes is more than trivial in national accounts.

The goals of individuals seeking to invest vary widely. The choice of objectives is to some extent influenced by taxes. For example, emphasis on capital growth as an investment objective is in part a result of the relatively low income tax rates on capital gains, plus the possibility of permanent income tax avoidance by holding till death.

Eminent justification

Moreover, tax considerations influence the selection of *ways* to achieve investment goals. Yet, not all individuals, even if they were fully informed (and many are not), would feel the same tax impact on their investment decisions. The manager of a charitable foundation or a retired couple in modest circumstances may have no concern with income and death taxes; while many an investor knows that government will take one-third or more of any additions to his taxable income. A not unimportant minority must expect government to absorb over half the income, and at death half or more of the capital. Although there may be eminent justification for such discriminations, the effects on individual investment objectives, and the means to achieve them, will differ.

Great differences in the tax treatment of types of assets and income, great differences in the marginal rates applying to taxpayers, and great differences in investor objectives have induced vigorous search by some individuals for tax-favored investment. From society's point of view, much of this effort (some of it of the very highest skill) is a sad waste. Beyond this, what can one say about the results?

In principle, certainly, there is strong reason to believe that *investment will be more often shifted to types and forms which are less creative than if tax considerations were unimportant*. In other words, if an investor can gain certain tax benefits by shifting wealth from a form with higher economic productivity to one of lower, then the investor profits from a gain that does not result from economic productivity. Individual interest and social interest, then, do not coincide in this instance.

Congress, however, may deliberately design a tax favor to encourage some type of economic development, presumably in the public interest. Such examples exist: the oil depletion allowance, for one. Then the question arises whether the tax favor is an efficient means to achieve the public purpose. But this is another topic, and one much too big to discuss

thoroughly here. Let us look at just one specific problem connected with this general topic. Does our tax system favor safe over venturesome, risky investment? In at least four ways it certainly does.

(1) The system accords virtually complete exemption of state and local bond interest from income tax, while exempting the principal from property taxes. The funds may be used for some of the most creative and valuable of investments—highways and schools, for example—but these are hardly what we consider risk investment. Unquestionably, the inducement to upper-income groups to put their wealth in such form is tremendous. Yet the Harvard study, and estate tax data, show smaller holdings of municipals by wealthy people than one would expect.

(2) Federal and state death taxes create great inducements to the “trustification” of property. By putting wealth in trusts of certain types, a person can free one, two and occasionally more generations of his heirs from death and gift taxes. Here is a bargain too great to pass up, especially since income tax savings can also be substantial. We know that very large amounts of personal wealth are being put into trust, though, of course, not solely for tax purposes. Investment of the wealth in trusts, although not restricted

to “legal list” securities, will be conservative. Less of large fortunes will be available for truly risk investment than if trusts were relatively less important.

(3) Individual incentives to save on taxes, chiefly income and death taxes, help explain the growth of pension plans and the booming sale of life insurance. For the most part, I believe, other considerations have weighed more heavily than taxes. Whatever the balance of causes, however, ever-increasing wealth flows into pension funds and insurance companies—in other words into safer, rather than more venturesome, investments.

(4) The need for cash to pay death taxes increases the holdings by wealthy people of highly liquid assets, assets which are safer rather than risky.

Avoiding risk

However, there is much more to the story. As individuals plan personal investment, some are impelled by taxes to seek more risk, while others seek less. The essential nature of progressive income and death taxes gives rise to a reason *for avoiding risk*: the tax treatment of gains and losses from risky ventures cannot be symmetrical. Favorable outcomes fall in successively higher brackets, while failures reduce the tax base in successively lower brackets. If,

ignoring taxes, the chances of success and of failure in an undertaking were just sufficient to induce a person of wealth to go ahead, then with progressive taxes the venture will not appeal. Any profit will be subject to combined income and death tax at a rate of perhaps 70 per cent; but a loss may reduce only amounts in brackets taxed at 30 per cent or less, perhaps not at all.

Tax laws, however, provide many special treatments of both gains and losses, treatments which influence the opportunities facing the rational investor.

Nevertheless, the Harvard study found that investors do not consciously pay as much attention to loss possibilities as rational analysis would indicate to be wise. Consequently, the difference between liberal and narrow tax deductibility of losses has less influence on investors than it would if individuals calculated accurately. Thus, one common indictment of our system need not cause the worry it might.

Better still, highly favored tax treatment of capital gains acts as a positive stimulant to many persons to engage in risky undertakings. Capital gains are not always taxed, and when they are the effective rate is lower than on other forms of income. As a result, one way to hold on to most of the income from an investment is to

arrange for the income to take the form of capital gain. Our laws offer an increasing number of opportunities for doing so. Some capital gains result from manipulations which have no connection with constructive risk-taking. But much real innovation does yield its fruit in the form of capital gains.

The Harvard study found a significant number and proportion of persons of large, and not so large, wealth deliberately seeking capital gains for the tax advantages. The investigators concluded that positive stimulating results very possibly outweighed the adverse effects of our tax laws on incentives to risk-taking. No one, of course, can be certain of the magnitude of results. However, years of very high tax rates have been years of very high rates of formation of new firms and of plowing earnings into businesses to finance growth.

Influence on decisions

Timing of investment decisions is not infrequently influenced by taxes. The most obvious example is the delay in realizing capital gains, sometimes to achieve permanent avoidance, sometimes to keep the potential tax-yielding income for the investor rather than paying it to the Treasury. Private foundations and philanthropic trusts receive wealth which, if it

were not for tax considerations, would remain in the family. More wealth is put in the name of children so that the yield escapes tax entirely (as part of the under-\$600 income of a dependent) or is taxed at a lower rate than if the original owner had held the property. The estate tax marital deduction provides powerful incentive for a man to give to his widow extensive control over at least the disposition of about half of his wealth; consequently, more control of wealth is exercised by women, generally old women, than if tax laws were nearly neutral. Family business sometimes merge into larger ones so that the owners can in effect make their estates more liquid. Finally, earnings of closely owned corporations are retained in part to escape personal income tax.

Tax reform, of course, is always needed. Constructive reform in the public interest is aided by clear indication of defects. What are the defects as regards incentives to invest? They seem less than sometimes alleged. Yet the system has a general defect which is implicit in what has been said above.

The system creates differences in incentive which do not efficiently serve the public interest. Some such differences are inevitable. However, those today are larger than they need be because of the wide range of tax rates and the great number of special provisions. The broad goal of reform as regards incentives to invest should be to *increase* the weight which the informed investor gives to basic factors of economic productivity, and to *reduce* the weight assigned to purely tax matters. *One means of doing so would be to cut top-bracket income and death-tax rates.* But by no means would such action be sufficient. Also needed is an increase in effective rates on what is now undertaxed: municipal bond interest, capital gains, depletion in excess of cost, or transfers of interests in long-term trusts.

Yet reduction of special provisions rather than continued increase seems hopeless. Still, if we made it part of a program of rate reduction and the introduction of fundamentally efficient averaging, we might have success. The attempt would certainly be in the public interest. ■

Coins in a Fountain

WHO POCKETS the coins American tourists toss into Italian fountains to induce Fate to cause them to return some day? The lower Courts of Rome decided that coins in the Fontana de Trevi belong to the Township of Rome and not to passers-by who wade in and pick them up. Other budget-minded Italian towns are following the same trend of thought.

Everett M. Kassalow

Research Director,
Industrial Union Department, AFL-CIO

A Look at Labor's Goals



Q *Mr. Kassalow, as you know, a great deal has been said about the bargaining power of unions as a force behind the so-called cost-push inflation. While we do not expect you to agree with this thinking, what precisely can you say about its validity?*

A Let me first say that I have a feeling we have become obsessed with inflation during the last few years. We should keep in mind, as Prof. Hansen very recently reminded us, that our record of price inflation in the past 10 years, about 1.75 per cent compounded annually, was much better than during almost any other comparable period you could find in American history. For six decades between 1897 and 1958, for example, wholesale and consumer prices rose by 2.33 per cent. Moreover, the upward movement of the past 10 or 15 years has been world-wide in character, and our own price record is better than that of almost any other country. While we cannot ignore the price problem, we must not lose sight of a far more basic problem—namely our very low rate of growth and development during the past five years.

Q *What, however, do you think of the theory that labor cost has been a major contributor to pushing up all costs?*

A When you say labor, I assume you are referring to organized labor. There have been some good studies on this subject. I am thinking particularly of a study recently completed by Ruth Mack. She found that

between 1947 and 1956 the wholesale prices of manufactured goods had gone up about 27 per cent. During the same period of time, Mrs. Mack discovered that the unit wage cost of production and maintenance workers had gone up only 18 per cent. But salary costs of so-called non-production workers during the same period of time had risen some 75 per cent. Salaried workers are, by and large, unorganized, so that this particular boost on the cost side could hardly be attributed to organized labor. Also, during the same period, Mrs. Mack found that capital consumption allowances had gone up 69 per cent. Cost factors like these, more than any rise in unit labor costs, were the leaders in this 27-per-cent rise in wholesale prices.

Q *The Korean war was certainly a factor, was it not?*

A Of course. Of the 27-per-cent rise in the wholesale price index experienced during this period, nearly half came about directly as a result of the Korean war, which was a purely speculative operation touched off by no one group in particular, but certainly not, again, a labor cost factor.

Q *But labor costs have been cited as a big reason why prices have remained inflexibly high since the Korean war.*

A When you get a speculative touch-off which pushes prices up eight, nine or 10 per cent within a year, I think there is a tendency for other forces in the economy, including trade unions, either through the operation of automatic escalator clauses or by the negotiation of wage contracts, to follow along with the price structure. I think, however, that all of us have been negligent as far as most fixed income groups are concerned. We must find some mechanism which will provide for more frequent reviews of the economic position of these groups.

Q *You just answered one aspect of the problem. Another aspect takes in the presumed inflexibility of labor costs. Would you like to comment on that?*

A The New Deal reforms and the passage and ever-widening acceptance of the Employment Act of 1946 suggest that as a people we have ruled out any willingness to accept serious depressions, or even very serious recessions which might run any length of time. This new en-

vironment, if you will—plus the appearance on the stage in the past 20 years of organized labor as a factor in the economy—probably has added a certain rigidity to cost structures. Actually, much of the so-called flexibility of the past was the grinding out of the severe depression. You didn't have a great deal of flexibility in the price structure from 1922 through 1929. Then came the terrible depression, and it wasn't until 1941 or 1942 that prices generally had climbed back to their 1928 or 1929 level. I quite agree that you have elements in the cost structure which tend to make prices more inflexible, but these are not necessarily bad.

Serious structural challenge to the trade-union movement

Q Mr. Kassalow, you mentioned figures earlier that would suggest the increasing importance of white-collar workers. A great majority of these people are not organized. What is organized labor planning to do to bring these workers into the union fold?

A The shift to white-collar occupations has been going on at a rapid rate in the past eight or 10 years, and will obviously continue in the next decade. This poses a serious structural challenge to the trade-union movement. As of now, perhaps, only 15 per cent of organized labor consists of the white-collar group. By white collar, I am including clerical, professional and technical workers in the labor force. The big industrial unions will have to find some means of providing a more basic, and, shall I say, more interesting appeal to white-collar, professional and technical workers.

Q What special needs will have to be serviced?

A For example, the engineering and technical workers are interested in the problem of utilization. A group of engineers recently complained to me—and these happened to be organized engineers—that they were not being sufficiently utilized in their companies, with the consequence that their skills were beginning to decline. It may well be that in future collective bargaining on behalf of these workers, the unions will be asking for payment by companies for certain advanced educational studies.

Q What basic changes do you see in the demands of organized labor as more and more white-collar people are organized?

A So-called fringe demands will probably increase in importance.

These people tend to have a more middle-class set of tastes and will be interested perhaps in longer vacations or special sabbatical leaves. There is a variety of new demands that must come into play as the trade union movement seeks to broaden its ranks. Finally, on this general area, it is my own feeling that the trade union movement must do this, must meet this challenge if it is to go forward with the role which it ascribes to itself—namely, that of acting as spokesman for the great majority of our workers.

Q Mr. Kassalow, do you think people with middle-class values will be amenable to the idea of joining a union?

A I think the nature of modern industrial society makes some kind of group organization essential. I think this is true whether a man is a \$10,000 engineer or a \$4,000 automobile assembly worker. I mentioned earlier the question of utilization. There is also the question of patent rights. To come to grips with these questions and many others, the engineer (and I choose him as the most extreme example of the group we are talking about—extreme in the sense that he is the most professional of these groups) will need some kind of organization, be it a trade union, be it something special, or what have you.

Q What about the white-collar worker who does not think of himself as a member of a profession?

A Clearly this white-collar group is numerically far more important. It is my feeling that the differences between white-collar workers and blue-collar workers are not nearly as great as they used to be. The very changing nature of work today is making the typical production worker more like a white-collar worker. And it is making the white-collar worker a far more mechanical component in a large organization. He is punching a machine, tending a computer, working in large groups and in series. So it is my own feeling that we are going to see, by one device or another, a much larger scale organization of white-collar workers in the next four or five years.

Q What, for the next decade, has been articulated as the goals of unions? What is it that they are looking forward to?

A Economically speaking, one cannot stress too much that the over-

riding goal of the trade-union movement as a whole is a full employment, a healthy, expanding economy. The words "organized labor" have now become synonymous with "full employment."

Q *What exactly does full employment mean to organized labor? What policies are advocated for the implementation of full employment?*

A When a recession comes about, we want vigorous and positive policies to reverse this recession. We are strongly opposed to such actions, for example, as the one the Federal Reserve took last fall, when recovery was barely underway; when we still had from four to five million unemployed. The Fed moved ahead, anticipating an inflation which might be coming one or two years hence, and began to tighten the money market. The trade-union movement feels that a psychology or philosophy of that type is dangerous, since it will hamper and cripple the rate of economic growth in the U. S. There are a number of enterprises, be they in the field of power development or basic scientific research, where we think intelligent action and assistance by the government can mean a rate of growth much greater than that of the last three or four years. Now, this, conceivably might add slightly to the inflationary danger, but our feeling is that as long as resources are idle, such government action will not seriously affect the price level. We think, frankly, that the choice must be made constantly for a healthy, vigorous, full employment economy.

Lead to great displacement of labor

Q *What specifically is union policy toward fundamental innovations which do have a direct impact upon employment? For example, automation, and other technological changes.*

A Such changes lead to great displacement of labor, at least in the short run, and in many cases even in the long run, if demand is not expanding very sharply. We are confronted, for example, with the latter situation in the automobile industry, where there is obviously taking place a permanent displacement as a result of a rapid change in technology, not matched by a corresponding increase in consumer demand. Organized labor has tried to introduce a social moderation in this rate

of technological change by setting up certain protections. For example, the establishment of a severance pay plan or a system of supplementary unemployment benefits compels an employer to weigh some of the additional costs which we think it is correct for him to weigh when he is planning to automate a given factory, or to shut down a given factory. In other words, there is no reason why all of these costs should be thrown onto the workers and their communities. It is right and proper that there should be a charge levied against the future profits resulting from this new technology.

Q A while back, Mr. Kassalow, you spoke of government action to sustain full employment. A critic of labor unions might say that you are in favor of big government. Would you want to qualify a conclusion of that sort?

A Our approach to this question is really quite pragmatic. We think that there are some things that government obviously can do better than private parties of the economy. We feel that for the economy as a whole the government must play a kind of balance-wheel role. We are firmly convinced that the greatest challenge to the American economy comes when we are falling short of full employment. We think that the resulting deficits are far more significant than the deficits which arise when you spend three, four or five billion dollars more to make certain that you have a high rate of economic growth. We have had enough experience with the problems of the federal debt when we moved from \$40 billion, roughly, at the end of the Thirties to \$275 billion at the end of World War II. We saw that our economy did not collapse and that it was far more crucial for our economy to be producing at a full employment rate. When we are doing that, the slight budget deficits that we have been talking about to ensure this rate of economic growth can easily be met by a high rate of growth and development. Of course, we recognize that you have got to apply fiscal policy both ways. If you run into periods when demand seems to be far in excess of your resources, as, for example, during the Korean war, you must be prepared to reverse your fiscal policy and seek budget surpluses to keep the price structure from getting away.

Q Thank you, Mr. Kassalow. ■



Hope, tragedy and changing values
characterize the massive flight
of the farmers to the cities

UP FROM THE FARM

by Paul A. Miller



■ EIGHT MILLION Americans left the farm between 1940 and 1950, and as many more will have joined the exodus by the end of this decade. In the cold terms of manpower allocation, the proportion of the national labor force employed in farming has fallen from 27 per cent to about 10 per cent between 1920 and the present.

Such tremendous economic change cannot fail to have deep effects on the individuals that make up the statistician's record. Eight million migrants from the farm world mean eight million radically altered personal histories. What were the feelings of these participants in this great, if little-regarded, movement toward a different life?

The new arrivals are not with-

out their difficulties. Farm males have less success in the city labor market than their urban counterparts, and are significantly less numerous in the professional, clerical and sales fields. Thus they take over the old role of the foreign immigrant, accepting the poorer jobs and letting the city-bred persons gravitate upward in the social and economic scale. Only those persons who develop special skills can escape from such a fate.

If they permit themselves to be defined as marginal in economic terms, the new arrivals fare no better in community life. A sociologist would say they run the risk of marginal participation; a less-academic observer would say they were lonely.

This marginal participation or loneliness is seldom noticed because it does not call attention to itself, but the effects sometimes erupt into loud action. Chicago's troubles with migrants from the poor hill country of the South are an example of what can happen. The men congregate in West Side bars, attracted there by the so-called hillbilly music that acts as a replacement for all of the values and social connotations they left behind. Lacking direct communication with the city about them, the migrants too often divide their existence between a sullen acquiescence to the exigencies of stultifying jobs and an equally despairing effort to find pleasure in drink and aimlessness.

Barroom fights are one simple expression of the failure of these new arrivals to find a sense of purpose in the city. If the migrants fail to evoke the sympathetic interest of their urban neighbors, they have, at least, aroused the professional attention of the Chicago police, who staff the West Side areas with special forces to anticipate sudden troubles.

The church provides one hopeful exception to the rule of non-participation. Sociologists report that most of the migrant groups are at least as active in church life, and perhaps more so, than the older urban residents. In the practical sense of law and order, re-

ligious participation has reduced some of the acute difficulties in the Chicago area. In broader terms, church activities help restore a feeling of community and act as a bridge to the new meaning of urban life.

The Chicago situation is fortunately not typical of the majority of farm-to-city transfer situations. Many persons make the change in a less crass way, simply moving to a nearby small town. It is estimated that one-third of all nonfarm residents were born on the farm, but the figure overstates the implications of change in private lives. Thus, the proportion of farm-reared in the great metropolitan areas is about 10 per cent, while it rises to as much as 60 per cent in communities with a population of less than 2,500.

Nor are all the shifts toward the nonfarm world in the migration category. Part-time farming is another important phenomenon of our economy, permitting a gradual integration into the industrialized context of modern American life. Many rural people remain at their old homesteads and take factory jobs when new plants are within reasonable or even unreasonable distance. Perhaps a third of farm families get more disposable income from off-the-farm than from farm work. This gentle shifting of the economic center of gravity permits the people to retain many

of the old values that gave meaning to their lives. At the same time, they are experiencing the more varied stimulations of modern society. They are learning new occupational and social skills as their contact with the outside world is intensified.

Consistent miracles

The ubiquitous force of industrialization takes equal effect on farmers who stay and farmers who leave. Those who stay must keep pace with technological innovation, and the mechanization of the farm has caused consistent miracles of increased agricultural productivity.

But the most efficient farmer has not changed his economic character as a seller in a competitive market. On the other hand, important industrial areas are dominated by a few producers who can influence price structure. The result has been a chronic bargaining advantage of the urban over the rural producer, with the government being forced to help redress the balance with the various programs of farm aid. The pressure on the marginal farmers, however, remains strong, and exodus continues to be the final response of many farm people.

Migration frequently has destructive effects on the areas left behind. Particularly affected are the poorer regions, of course, those

with the greatest "people-over-resources" unbalance. Usually retarded in quantity and quality of goods and services, especially in community institutions, they undergo demoralizing declines in taxable revenues and the activities that once made them minimally viable. Their traditional community structure and kinship systems are further weakened, and they become moribund.

Our society is so highly mobile that the phenomenon of migration does not stop until it makes the full circle. While we witness the depopulation of agricultural communities based on submarginal economic activity, we can simultaneously record the development of suburban and exurban areas. Tides of newcomers sweep into the city and push ahead of them older residents who want to broaden the living space shrunken by urban population density.

This latter development is one of the reasons why the vast farm-to-city migration has been so little remarked. Mobility is so much a feature of American life in general that the movements of one class of internal immigrants are just another element in the national dynamics. Awareness comes only when a given movement becomes so forceful that it causes uncomfortable or painful frictions. The contemporary northward movement toward Chicago and the

westward trek from the drought areas to California in the Thirties are examples.

Another reason for the comparative smoothness of the transfer lies in the constitution of the main body of migrants. Most are young adults, still flexible in their objectives and able to parry the first blows of economic misfortune.

The lack of incident in much of this change should not blind us to the fact that it may cause much unnecessary pain as well as economic inefficiency. Most farm people continue to be trained for the farm life, in bland nonrecognition of the prospect that many will not stay on the farm. The migrants will continue to risk paying the price of ignorance in terms of poor working and social conditions in their new homes.

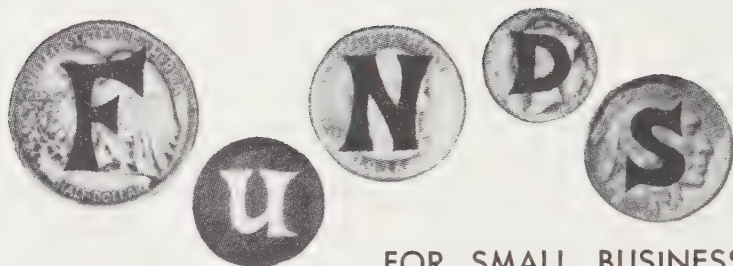
Too many rural attitudes are neither emancipated from the past nor adjusted to the future. Indeed, the rural community is much more effective than the urban in enforcing its values through an elaborate social, political and administrative apparatus. Tragedy lies in the fact that precisely this capability may isolate the individual from the attitudes and skills he will need to meet the requirements of a technological age, either as a migrant to the city or as an efficient farmer. The government, which is mediating so actively in the agricultural sit-

uation, might more fully address its attention to this problem of shifting human resources. If the farmer cannot quite substantiate his claim to be the forgotten man of the American economy, the ex-farmer is surely a completely neglected figure in American society.

The problem of values is one that is becoming more and more acute in the United States. It is inevitable in a country characterized by a mobility of such proportions. With so little to grasp, the inconstant traveler tries to establish contact with the palpable. The new Chicagoan, still ignorant of the sophistications of city dress and manners, is quick to become acquainted with the easy joys of the installment purchase system. No one tells him that he is a poorer man in other ways than he was back home, where he had a fraction of the disposable income. He once believed in a congeries of intangibles that have vanished in the city lights.

It is in this area of values that the rural and urban Americans find themselves joined in a community of discontent. Private planning and public policies cannot afford to ignore those consequences which erase meanings that are the more necessary because of their immateriality. Change exempts neither farmer nor city resident in the modern world. ■

NEW



FOR SMALL BUSINESS

The small business investment companies provide a practical means for financing promising firms

by Robert P. Ulin

■ A NEW SET of financial institutions will soon be operating in most sections of the United States. They are called Small Business Investment Companies, and—as the name implies—their special purpose is to make investments in small, but growing firms.

These new institutions will be sponsored and partly financed by the Small Business Administration. But they will be chartered by the individual states and headed by private citizens of the localities in which they operate. About 300 Small Business Investment Companies (SBIs for short) are expected to be in operation by the end of 1959.

In the Small Business Act of 1958, Congress authorized these new investment companies, provided major tax advantages to

private citizens who would form SBIs, and made available \$250 million of federal government funds for the program. The SBIs will deal with manufacturing firms with less than 250 employees, or with retail firms with less than \$1 million of annual sales. The SBIs will assist the small firms by long-term loans or investments in their common stock. Interest rates must be low. The Small Business Administration will supervise the entire program and will give priority to areas of the country where there seems to be a shortage of funds for small business.

Any group proposing to start an SBI must first obtain the approval of the Small Business Administration. It must show: (1) that a need exists in the area; (2) that it has sufficient capital for a lending

program; and (3) that the individuals directing the SBI have substantial experience in business or finance. Because of this last requirement, almost all SBIs will have bankers or prominent local businessmen among their sponsors.

Tax advantages are the key to extensive private participation in the program. They include a tax exemption for all dividends received by SBIs on their investments in small companies, and also the right to deduct any losses on these investments directly from taxable income. Most important, in getting the program started, is a provision that individual investors who form an SBI may deduct losses on *their* investments (i.e. on shares in an SBI) directly from *their* incomes. To a wealthy individual, this could mean that as much as 75 per cent of any loss would be absorbed by the government, although capital gains are taxable at a maximum of 25 per cent.

This extremely favorable tax treatment on gains and losses is intended to attract *private* capital for the SBIs—and so for small business lending—in areas where large amounts of money have been going into other forms of risky investment. But in areas where private capital is short, the Small Business Administration will make government funds available to

sponsors who can raise part of the money for an SBI. The interest charge for such government funds will be only five per cent, and this—plus the capital gains possibilities—is expected to keep down the cost of SBI loans.

In general, a Small Business Investment Company will serve one regional area, which might include all or part of a state—such as Western Pennsylvania—or all of several states in less industrialized regions. In some cases, an SBI will operate in one large metropolitan area, cutting across state lines. This metropolitan or regional set-up will be somewhat comparable to existing commercial banking facilities. And in fact, it is the large commercial banks that are, in many cases, setting up investment companies to parallel their own short-term lending operations.

In such cases, a large bank in, say, Atlanta or Pittsburgh, will provide a share of the capital for an SBI and also some of the management, from among its own officers. It will refer to this SBI requests for venture capital that come to its branches, but which are too risky by conventional bank loan standards.

The larger SBIs of this type may eventually serve as models for smaller investment companies, to be set up by banks or other investors in more rural areas. But as a start, it seems

likely that there may be 50 to 100 fairly large SBIs serving the principal business regions of the country; this would be one or more per state. In addition, there will be many quite small SBIs created for special local situations.

Types of companies

The SBIs will divide into two groups, according to their general purpose. The first group, set up by wealthy individuals who are interested in capital gains, will consist of companies to make "long-shot" investments. Most of the smaller SBIs will fit into this category, their success depending on a special knowledge of local situations. Many such "long-shot" SBIs will invest in new products or new technologies in the big industrial centers.

The second group might be called "community development" SBIs, whose purpose is to further the industrial development of a community or region. These would include an SBI formed in one town by, say, the bank and the leading merchants, to help local small industries and "keep the payroll on Main Street." State or local development corporations are eligible for federal aid as part of the SBI program.

Altogether, therefore, the SBI program will have considerable scope and flexibility. It will help to spread venture capital from

the present money centers to many states and semirural districts. Because of its size and diversity, it will have an impact far greater than anything done so far by a handful of private venture capital companies or by state and local development funds.

Let us now see how a particular Small Business Investment Company might operate in, say, an Eastern city—perhaps, Providence, R. I. It has \$500,000 of capital available to lend, but it wants to spread this among a number of ventures. So it will make available to any one small firm perhaps \$25,000 or \$50,000. The directors of the Small Business Investment Company include two bankers and several local industrialists. They are familiar with precision manufacturing and can lend management assistance to companies in that line. They hope to invest in small "growth" companies that will advance rapidly if they get such management aid, along with more capital. In other words, this is a "long-shot" SBI.

Theoretically, our SBI could make loans to almost any small business. Roughly 98 per cent of U.S. manufacturing firms employ fewer than 250 people, and 99 per cent of retail firms have annual sales under \$1 million. But actually, very few of these have the growth potential the SBI is looking for.

The SBI is most likely to aid—or, for that matter, to help found—a small business which has a good chance of growing into a medium-size or large business. Most such companies are in manufacturing involving new technology and fairly complex equipment. That is where the directors' knowledge of precision manufacturing will come in. For example, the SBI may help a small tool and die manufacturer convert his facilities to making aircraft parts. But it would also take about \$75,000—more money than a small company could hope to raise by a short-term bank loan.

Right here is where its bankers might refer the small company to an SBI for help. The SBI would provide perhaps \$50,000 of the total \$75,000 needed to tool up for the aircraft contract. The bank and the small firm itself could probably handle the rest.

Capital gain

Usually the loans made by a "long-shot" SBI will be in the form of convertible debentures, bonds convertible into stock at a later date. Thus, if the small company grows and its stock becomes worth more, the SBI can acquire a valuable stock interest and eventually make a capital gain by selling the stock for more than the original amount of the debenture loan.

In the meantime, the debenture loan arrangement has great advantages to the small company, particularly because the original loans will be long-term. Up to now, a small manufacturer wanting to buy machinery not only had to repay it in five years, but had to repay an important portion in less time. The commercial banks usually make such extended loans only to companies in very strong financial condition. Other lenders—such as factors, or industrial finance companies—charge very high interest rates, sometimes approaching 15 per cent. The SBIs, by contrast, will charge only six to eight per cent, since their real objective is not to collect interest, but to make capital gains.

Best of all, from the small company's viewpoint, the SBI will become a stockholder if it converts its debentures to common stock before the full term of the loan. This means that there will be no repayment on any part of the loan converted to a stock interest.

Although the "long-shot" SBIs will concentrate on growth situations in manufacturing, we should not forget the "community development" SBIs which may invest in a wider range of enterprises. Like other SBIs, they will be making loans of \$25,000 to \$50,000, but some of them may be in retailing. Let us suppose that an independent supermarket own-

er in a medium-size city wants to put up another store in a rapidly developing area of town. He can lease a building and get a loan from his bank for the new inventory. But he also needs to finance some equipment-freezer units, cash registers, display racks—that might well cost \$25,000 to \$50,000. For this, his bank may tell him that he needs equity capital and should get it from the local SBI, probably in the form of convertible debentures.

There will be many other special cases for SBI assistance. An association of lumber dealers has set up an SBI to help its members finance inventories. Some SBIs in rural areas may help finance motels and resort developments.

There are skeptics who feel that after the initial enthusiasm many of the SBIs will find themselves faced with the same problems that have plagued all small business lending—high risks, unwillingness of owners to sell stock interests, poor management and lack of true growth opportunities. However, the Small Business Administration and many banks participating in the program report that private capital is being contributed on a scale much larger than ever before. It seems likely that the new tax advantages will make it worth-

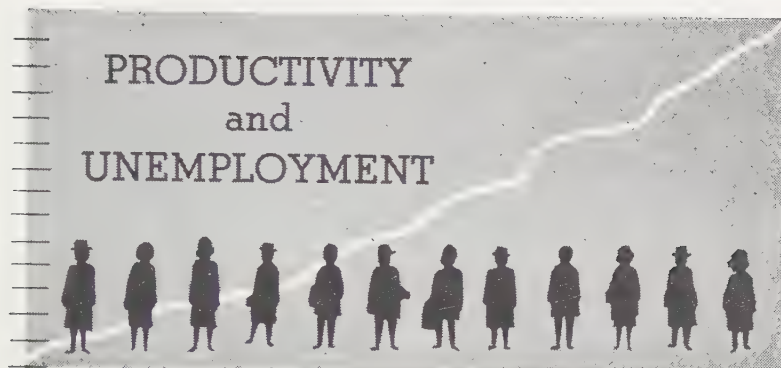
while for investors to stay in the game. Some bankers expect that over \$1 billion of private capital may enter the SBI program over the next year or two. This could be equivalent to 20 per cent of total 1957 investment made in plant and equipment by small corporations and unincorporated business.

Such a development would effectively protect small business firms—at least the well-managed and growing ones—against a new shortage of credit from conventional sources. If capital expenditures rise strongly by the end of 1959, large firms will again be pressing the money market for funds, while the Federal Reserve will be tightening the supply. This was the case in 1956-57. But there is little chance that the small firms will be blocked off in 1959. The SBI program will be ready to finance small business growth as we enter the 1960s.

The SBIs will not substitute for the organized security markets in floating big issues of stocks or bonds. But they will help the small, but growing company whose principal handicaps are that it is unknown to investors, and that its operations are local. Such a firm will be able to grow along with the nation. ■

What's in an Hour?

FOR EACH HOUR we choose to cut from the workweek, we as a nation give up about \$10 billion in production per year.



Maintaining full employment in a changing economy
requires vigorous leadership and hard decisions

by Thor Hultgren

■ THE AMOUNT OF WORK a man can turn out in an hour's time has increased more or less continuously over the years in most manufacturing, mining and transport industries, as well as in agriculture. The development of new techniques, better layout of plants, improved machinery and equipment have been the chief contributors to this phenomenon. These developments, in turn, have been possible because inventors and scientists contributed new ideas, an enterprising class of business executives realized their possibilities, government on the whole encouraged enterprise, investors ventured to advance funds, stockholders permitted the retention of earnings, and so on.

But over shorter periods this

long-term upward trend in productivity increases has been modified by another group of factors, connected with upswings and downswings in production and business activity. When business is slow, operations are likely to be inefficient, especially if plants were designed with a higher level in mind. A recession, at least if it became very deep, might be expected to raise the hours required per unit. On the other hand, revival of industry might be expected, at least initially, to bring an improvement in productivity, i.e., a decline in man-hours per unit of product.

Statistics to test the expectation, however, are not easy to find. In annual figures, the influence of cyclical changes in output is large-

ly swamped by that of the longer-run technological changes, and such figures are the only ones there are in many cases. The National Bureau of Economic Research has nevertheless assembled monthly data for some important industries, mostly in manufacturing. The expectation about cyclical changes turns out to be mainly correct. In 91 per cent of the upswings, productivity improved; in 72 per cent of the downswings, productivity fell.

Persistent change

The persistence of technological changes explains the tendency for productivity to increase faster during periods of business expansion than it declines during periods of business contraction. Such changes are introduced when production is contracting, as well as when it is expanding. It is true that expenditures for new, and usually improved, plant and equipment often decline severely during contractions of output. But their level is still high in the earlier stages of contraction. Some plants, ordered during periods of expansion, are not completed, and some equipment ordered is not delivered, until shortly before or even after the downturn. Moreover, it sometimes takes time for the effect of the improvements to be felt; reports to stockholders often refer to temporary increases

in cost encountered while new facilities are broken in.

But as an upswing in production proceeds, many plants approach their optimum capacity. Inferior facilities that were shut down during the preceding recession are called back into service in response to rising demand. New workers have to be trained. According to some employers, the morale of labor weakens as jobs become plentiful. Gains in productivity may therefore be less common in the later stages than in the earlier stages of expansion. When production turns downward, operations may at first recede only to a level better suited to the capacity of plants. Crowded aisles and storerooms and other obstacles to efficiency disappear. Inferior facilities go out of production again. The least efficient workers will be laid off first if they do not have too much seniority. The effects of technological change cumulate. Declines in productivity may become less common, and rises more common, as recession proceeds.

The National Bureau study found that rising productivity became less and less common as expansions of output proceeded, although it still predominated. Toward the end of contractions, rising productivity became almost as common as falling productivity.

If the findings for these indus-

tries are representative, one might suppose they would also be characteristic of upswings and downswings in business at large. The *general sequence* of changes, however, is complicated by the circumstance that the various parts of the economy do not move in step with each other. Although the National Bureau dates the recent recession from July, 1957, some of the manufacturing industries attained their peak output in the latter half of 1955, and others in various months of 1956. Refining of petroleum turned downward after January, 1957; manufacture of cement increased through October.

Since a business cycle is thus a somewhat heterogeneous thing, it is not surprising that we get a somewhat different impression when we consider what is happening in all industries simultaneously than when we consider what happens in specific industries in their far from coincident production cycles. In both cases, we find falling hours per unit of output become less common as expansion proceeds, and rising hours per unit less common as contraction proceeds. But in the business cycle as a whole, falling hours per unit predominate in *all* stages of the cycle, except just after the recession.

Toward the end of a business recession aggregate man-hours

decline considerably faster than production, and they lag considerably behind the rise in production during the earlier stages of a business recovery. Employment, however, does not fluctuate in the same way. In part, employers adjust their labor supply to their needs by curtailing the hours of work rather than by separating workers from the payrolls. Between the business peak in July, 1957, and the trough in April, 1958, manufacturing production declined by something like 13 per cent. The average workweek, however, was shortened from 40 to 38 hours and the number of workers employed fell by 10 per cent. Conversely, in expansion, business obtains additional needed man-hours to some extent by lengthening the week, and employment, which did not fall as fast in production, does not rise as fast either. From April to September, 1958, production increased perhaps nine per cent. The working week lengthened to 39.7 hours, and employment rose only two per cent.

Timely increases

Although improvements in productivity mean that a specified amount of product can be turned out in fewer man-hours, they do not mean that aggregate man-hours must diminish proportionately. We cannot even assume that,

if similar changes in late contraction were not present, aggregate man-hours would fall by a smaller percentage. Instead, production might fall even faster than it does. The danger of business failure is great in contractions. Many more enterprises might fold up and throw all their workers into unemployment if it were not for timely increases in the efficiency of labor.

Over the decades, the workweek has become shorter, not longer. In spite of shorter hours, production has increased much faster than employment, even though employment, in the long run and as nearly as we can tell, has increased about as fast as the number of people who would seriously like to have it. Moreover, labor-saving technological changes usually require new and improved physical facilities. The development of new methods for economizing labor therefore leads to a demand for additional man-hours in the construction of plants and machinery.

When a saving in hours per unit actually materializes, it necessarily has one or another of three concomitants, or some combination of them. Either the price of a commodity produced under more efficient working arrangements declines, or payments per man-hour of labor increase (as a result of wage increases, for

example), or profits per unit of product increase. In practice, the benefits of labor saving tend to be split in varying proportions in a three-way distribution.

Lower prices increase the purchasing power of prevailing incomes and capital funds at the time the reduction of hours per unit occurs. But prices do not always fall as fast as cost, and in such cases profits increase. Competition for these profits raises the demand for labor and capital and hence payments to workers and lenders rise faster than man-hours rise. Such increases, if they do not outrun productivity, add to real purchasing power. Insofar as profits are not dissipated in higher payments to workers and creditors, they are available for fresh purchases of plant and equipment, accumulation of inventories, or higher payments to proprietors and stockholders.

Exhausted opportunities

It must be admitted that the demand for capital facilities inspired by their labor-saving effects may eventually pose a problem of unemployment. As more and more businessmen come to appreciate the advantages of such a capital improvement, the outlays it requires may grow rapidly for a time. But eventually a point may be reached at which the innovation has been introduced in most

situations in which it can be effective. It is the comparative exhaustion of opportunities for further labor saving, however, not the labor saving itself, that creates this problem. Operating economy, moreover, is not the only motive that prompts capital expenditure. It may be incurred mainly to make *new* products or even to extend existing kinds of capacity.

It must also be admitted that the mechanisms by which productivity gains are translated into more output are not perfect. Agreements to fix prices or divide markets and other monopolistic arrangements may prevent fewer hours per unit of product from being reflected in appreciably lower prices. Profits earned in such a situation are not likely to stimulate much production. Demand for some products may be so inflexible that price reductions made possible by lower labor cost will not stimulate enough sales to keep man-hours at their initial level. The purchasing power released by higher productivity may be exercised on the products of other industries. Because of union restrictions on admission to jobs, limited skills, imperfect knowledge of the labor market, geographic separation or old age, displaced workers may not be able to transfer their

services to any such industries.

What can be done to assure that gains in productivity will be reflected as fully as possible in higher standards of living rather than in unemployment? We should maintain or strengthen the enforcement of antitrust laws, eliminate restrictions on employment that prevent transfer of workers from one industry to another, and provide facilities for training workers in new occupations, acquainting them with opportunities in unfamiliar locations and industries, and financing their migration. If displaced workers are too old for such methods to help them, we should retire them on pensions or on Social Security.

These remedies assume that if people will not spend their money in one way, they will spend it in another. Could productivity advance so far that they would not spend enough in one form or another to keep everybody who wants to work employed at, say, 40 hours a week? It is conceivable that such a problem might arise. It would mean that income recipients did not want for any useful purpose all the money they would earn under full employment. But there are still so many unfilled (and reasonable) wants that chronic failure of demand seems remote. ■

Many are Chosen

ONE IN EVERY SIX employed persons in the United States has a government job. The greatest increases in government employment have been on the state and local levels. The trend continues to move upward.



**the
loser**

The recovery was scattering rewards with an uneven hand. Profits made a good recovery in the final quarter of 1958, promising to make 1959 a fat year. The abstract consumer, having yielded mildly to the recession, was pressing to buy the durable goods he had perhaps postponed purchasing the year before. If, however, the consumer fell out of the abstract to the extent of being a member of the unemployed, the situation was sharply different. He had lost out in the game of musical chairs, and his prospects were poor for the first half of this year.

**sales
report**

The government, bravely girt with its magical new budget and straining under the residual burdens of the old budget, joined the jobless in the role of recovery victim. The U. S. Treasury suffered a humiliating failure in an effort to get the cash to make up last year's budget deficit. Bondholders showed scant inclination to provide the \$12 billion that the government needed. The Treasury effort was ambitious: the sale of \$9.1 billion of long-term securities at 3.75 and four per cent to holders of maturing issues. More than 20 per cent of the government creditors preferred cash.

**private
competition**

Treasury officials had no other alternative except to offer securities with greater attractions in terms of interest rates and maturity dates. The government was competing in the money market with private

business which had more to offer in view of exuberant profits. If this meant that business was good, it also emphasized the government's problem with inflation. Higher rates offered by the Treasury would work counter to the scrabbling efforts of the Federal Reserve Board to hold back the economy's inflationary potentialities.

**machine
made**

Unemployment was still distressingly close to the five-million figure, with little prospect of a substantial improvement in the near future. The nation's production machine was doing too well without the extra hands. The total number of nonfarm wage and salary workers was almost two million less than during the high of July, 1957, despite a whopping expansion of 400,000 in government employment.

**big
unit**

The unemployed were suffering from the otherwise commendable productivity improvement that showed the nation's increasing efficiency. Output per man-hour in production work rose six per cent in 1958, permitting unit wage costs to level off after a rise since 1955.

**early
rise**

With wage costs holding steady and production rising, business was able to cancel out its losses of early 1958. The before-taxes corporate profit rate increased from an annual \$32 billion in early 1958 to \$45 billion in early 1959. Experts predict a 30-per-cent profit rise this year, with dividends up 10 to 12 per cent.

**final
question**

Automobiles still remained a question in an otherwise booming durables field. Steel was operating at better than three-quarters capacity in a continuous process of improvement. Copper prices were up after a long period of slack demand for that metal. Public and home construction were also rising, although industrial construction still reflected the last recession hesitations of business planning.

**durable
demand**

Consumers were acting with an optimism slightly in advance of their real well-being. Real per capita income after taxes was still two per cent lower than it had been in the peak period of mid-1956. Nevertheless, disposable personal income was up in early 1959 to an annual rate of \$315 billion as compared with \$305 billion a year ago. Recent purchases of durables have risen appreciably more than personal income, indicating a momentum expected to turn into high profits.

markets

If the government was most properly concerned with the long-range problem of inflation, consumer prices should not immediately reflect the specific inflation of the money market. Increasing productivity and generous reserve capacity should permit industry to hold costs down. Rises in manufactured goods and services could be counterbalanced by declines in food prices, especially if the weather is normal. Last year's harsh winter had caused sharp increases, and better conditions will take effect on the market basket.

* * *

**dollars
and sense**

WASHINGTON—After the first Congressional impulse to ride roughshod over the President's budget recommendations, House and Senate leaders have begun to pull in the reins. The realization is setting in that everyone's favorite projects cannot be rushed through without making a shambles of fiscal responsibilities. The President will settle for a bigger budget, if Congress can find the money for it. Precisely because no one is in a mood for major tax increases right now, Congress is about ready to start picking and choosing. Come next June, the difference between the budget Congress approves and the one originally proposed by the President will be the difference between the revenue estimates of the Administration and those of people who are more optimistic. After the adding and subtracting, a \$78.5-billion budget looks good right now, but not much higher.

back seat
for inflation

Unemployment is going to stick close to the five-million mark for many months to come, so more attention is being given to the problem of economic expansion to absorb the increasing labor force. This has already begun to cramp Administration efforts to focus public attention on the problems of inflation. To overcome this, major emphasis will be placed on an examination of how economic growth can be accomplished in the context of relative price stability. This runs head on into some important economic opinions that say price stability and economic growth, at least a fairly rapid rate of economic growth, are contradictory.

the hammer
and the anvil

Iran is the latest victim of direct competition between the U.S. and the Soviet Union. Neutralist tendencies had to make a choice between a pact of friendship and economic assistance with one side or the other. The result: a paralysis of purpose, and then angry withdrawal of Russian offers. Now Iran faces reprisals from the Tudeh party, controlled by Russia, or from the Kurds, also controlled by Russia. The Shah is in a quandary because he cannot get a guarantee of U. S. protection. The situation here is as touchy as it is in Berlin. And the Russians will use Iran as a pawn in the Berlin bargaining.

Berlin,
the magnet

On Berlin itself, it is becoming more apparent that the West does not want to chance a major crisis until and unless major negotiations with the Russians have proved fruitless. Recognition of East Germany by West Germany is now a foregone conclusion. If an international status for Berlin becomes an acceptable solution. In this connection, all eyes are now on Secretary Dulles. The Secretary of State wants to be fit and ready for active negotiations on Berlin by April 1. He would still like to settle the Berlin and German issues, but as of the writing there is no talking whether he can meet his own time schedule. Chances are he will resign if doctors feel he cannot actively conduct negotiations by early spring. ■



■ A LEADING EXPERT not long ago told a meeting of the Advertising Research Foundation: "Nowhere but in advertising are so many billions of dollars spent with so little factual foundation for rational decision."

It is true that the nation's great advertising expenditures are defined broadly as a dynamic element in a dynamic economy. No responsible critic argues with this assumption; but, on the other hand, no student of advertising has been able to establish a definite cause-and-effect relationship between a given advertising expenditure and product sales.

Instead of applying rational decision, business has been forced

to proceed by way of intelligent guesses, a feeling for the psychology of the consumer and some rudimentary data. Advertising gives the manufacturer a greater power than he had before by creating consumer preference for products or brand names. In the old days, the manufacturer frequently felt that his destiny was entirely in the hands of his dealers and distributors. If, however, he succeeds in giving his brands a definite personality, he can exercise some measure of control and achieve greater stability in expected sales results.

The problem is thus not the question of advertising power; everyone is agreed on that. But

how can you measure that power?

Measurement techniques have been applied to the elements of the advertising formula. Thus the Audit Bureau of Circulations certifies the circulation figures of given media. The Curtis Publishing Co. made studies showing the significant differences in income and social status among purchasers of various magazines. Some advertisers followed this lead in attempting to concentrate their efforts on the more prosperous consumers, others preferring to broaden their attack on the market as a whole.

The problem of media got more complex with the expansion of radio and, later, television advertising. The various indexes can report how many sets are turned on, or, in some cases, what programs are being heard or viewed. But how can you compare the effect of a television sales message with that of an advertisement in the back pages of a popular magazine?

There is, thus, a great gap between exposure to an advertisement and the actual sale. Advertising experts have developed three terms that extend over this gap: message recall, brand preference and, finally, sales results. W. B. Ricketts, a marketing expert, argued that message recall did not go far enough because the consumer might be sufficiently impressed to recall the message and yet remain indifferent or have an

unfavorable reaction. On the other hand, Ricketts argued that sales results were not the best measurement of advertising effectiveness.

This might seem an astonishing conclusion to a manufacturer who pays for advertising in the hope that he will increase his business. But Ricketts' reasoning has much justification, and it indicates a central difficulty in the problem of advertising expenditures. Sales results, Ricketts pointed out, are influenced by more than advertising; the best advertising in the world cannot act as a crutch for an obviously inferior or unwanted product.

Ricketts thus argued that brand preference was the important objective of advertising. If surveys could prove that advertising had established a brand preference, this was adequate evidence of judicious choice of advertising media and copy appeals.

The results of a recent study of advertising in business periodicals illustrate the problem of product appeal. The study was able to establish a certain correlation between sales and advertising expenditures. It demonstrated that vigorous long-range advertising programs were followed by upturning sales curves in the case of many important products, and that slack advertising often accompanied slack sales.

But other products seemed to ignore the advertising ratios, sell-

ing well or badly in spite of strong or weak advertising programs. The author of the study was forced to conclude: "Advertising doesn't run a business any more than salesmen do. You've got to look for strong trends in other areas. They may be the fault of a poor product or lack of promotional know-how or, in fact, any one of a hundred different causes."

"Some companies," he added, "ride on the coattails of large companies who promote an industry, thereby benefiting every other firm in it. Or a company may have an important, patented product that it developed and with which it has a marketing lead."

Less-tangible influences

The expression of brand preference may not be a reliable predictor of actual behavior in the market place. Sometimes a consumer expresses a preference for a high-priced product, but he actually buys one that fits more comfortably in his limited budget. He may be persuaded in common-sense terms that a given product is best, but he can be influenced significantly at the time of purchase by other considerations which he finds difficult to state even to himself.

Much of motivation research is designed to study these less-tangible buying influences (see *Why You Buy*, CHALLENGE, January,

1959) and to plan advertising copy and selling appeals accordingly. In the long run, most consumer expenditures are controlled by urgent needs and rational requirements even in an economy of relative abundance. The moral in the case of a well-advertised, badly selling product is obvious: What is the matter with the product itself or the marketing?

In the last analysis, however, evaluation of the effectiveness of advertising has not even started until advertising expenditures are related to sales and profit results. It is admittedly a very difficult research problem, but money spent on advertising would be waste if it did not build profits. People with a stake in advertising are understandably reluctant to promote such studies until there can be greater assurance of their reliability. They can say with some justification that some effective advertising campaigns could be killed or crippled through blundering attempts to measure the intangible. The market analyst nevertheless is justified in saying that the delay in dealing with this problem means putting aside one of the greatest opportunities to contribute to marketing efficiency.

Values and limitations

The study of advertising in business periodicals by various firms is an example of the values

and limitations of efforts in that field. Another way is to investigate the advertising of one major company, gradually extending and refining the research techniques. The Du Pont Company has used this approach in an advertising self-appraisal. It studied various products in relation to the intensity of advertising, trying to set up prediction curves that would indicate what would happen if advertising were increased or decreased. Unfortunately, the history of these products did not include enough variations in advertising budgets, and this narrow range of experience weakened the reliability of predictions.

Complex "models"

I am presently making a study of an industry made up of only two firms using similar advertising media. Reasonably good historical data are available for sales and advertising expenditures, and their managements are progressive and prepared to cooperate with the study.

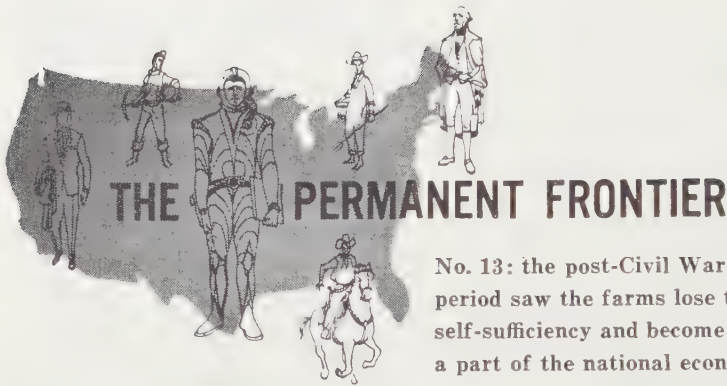
Another approach involves setting up complex "models" of theoretical situations with the aid of electronic computers, an operation now being carried on at the Massachusetts Institute of Technology.

What does all of this mean in broader terms for the American economy? It represents the first

real step beyond mere vituperation in identifying and eliminating waste in advertising. Market analysts and operations researchers who have worked in this area are generally agreed that effective evaluation will lead to more advertising rather than less. If management could have more confidence in the measurement of advertising effectiveness, it would be prepared to approve larger budgets. If an advertising budget is largely wasted, it is likely to eliminate itself presently, if only by bankrupting the firm which supports it.

Advertising has a vital role to play because of the very nature of a marketing economy. Production units become more and more specialized as production economies are effected. Specialization means separation, and the units must then be linked together by an effective network of communication and exchange.

Advertising thus is not alien to technological progress in a modern economy, but is an essential part of the process which makes it possible. Failure or weakness in the arts of communication like advertising would mean restricting the expansion of the American economy. Improvement in the evaluation of advertising in order to make more effective use of it is one of the greatest challenges in the future of American business. ■



No. 13: the post-Civil War period saw the farms lose their self-sufficiency and become a part of the national economy

■ THE CONQUEST of the “last” frontier between 1860 and 1900 has left a romantic notion of that reality. The Great Plains bring to mind the conflict between the Indian and settler, the raw individualism of the Colorado and Nevada mining towns, the “long drive” of the Texas cowboy to the Kansas railroad depots, and of course, the pioneer homestead farmer struggling against the elements on the semiarid, treeless plains.

An industrial reality lay beneath those images. Nothing so dramatically illustrated the efforts of industrial capitalism as the manner in which it shaped the settlement of the last agricultural frontier and transformed the character of agricultural enterprise and the status of the American farmer.

The process of expansion, settlement, and stable economic development from the Atlantic Coast

to the Mississippi Valley had taken more than 200 years. The Great Plains, larger and less attractive, were settled and stabilized in less than 40 years!

Such a rapid rate of development drew upon the new economic forces of that time. The Western railroads did more than just bring markets closer together, for they also encouraged settlement and economic enterprise as a means of guaranteeing their own investments. The urban growth in the East came largely as a result of the industrial expansion, and created a growing market for the grains of the Plains farmer and the beef of the Plains cattleman.

One crucial event overshadowed all others in these years: the final disappearance of the self-sufficient farmer. The “frontier” lost its ritual meaning as the symbol of perpetual economic self renewal and opportunity. The increase in

the number of farmers, for example, was slower than the increase in the general population. In 1820, 90 per cent of the population was engaged in agriculture. By 1860, the figure fell to 60 per cent, and by 1918 it was about 30 per cent.

The rapid development of industrialism and of cities, and the concomitant growth of a huge population divorced from the farm, re-emphasized the already important market orientation of the farmer. Subsistence agriculture and the self-sufficient farmer became less important than the production of cash crops for the market. The increasing demand for farm goods and the great stress on cash crops, furthermore, encouraged agricultural specialization, hastening the decline of the self-sufficient farmer.

"The process of the self-sustaining farm community was destroyed," write historians Harry Carman and Harold Syrett, "and the commercial farmer became a businessman who bought what he consumed and sold what he produced." The livelihood of the commercial farmer no longer depended primarily on his struggle with nature, "for his profits now were determined not only by the ele-

ments but also by freight rates, world supply and demand, and the status of the money market."

More than this, the laws that governed the disposal of the public domain and the actual pattern of land distribution sustained the rapid expansion of commercial agriculture in the Great Plains. Interestingly, the Homestead Act, passed in 1862 after years of agitation by agrarian and urban reformers and offering 160 acres ("a quarter section") to persons that lived on the land for five years, was of minor importance. No more than a small part of the land in the Great West went to homesteaders, and two out of every three homesteaders failed in their efforts before 1890.

The cost of farming made homesteading prohibitive for most city workers, and the Congress made no provisions for credit. Farmers, furthermore, came to realize that 160 acres were sufficient in a wooded, humid area, but hardly enough in a semiarid region. Certain clauses in the act as well as certain amendments to it invited a good deal of fraudulent practice on the part of land speculators and other nonsettlers.

Actually, the pattern of land distribution after the Civil War did not favor the farmer at all. Legislation other than the Homestead Act put great quantities of land into the hands of nonsettlers.

This is the thirteenth article of a series in CHALLENGE which deals with the history and development of the United States economy.

The railroads, for example, got almost four times as much "free land" as did the pioneer farmers.

Under other laws, much of the land that the states received to encourage agricultural education, and a good deal of the Indian reservation land, passed into the hands of speculators. All this time, moreover, cash sales by the government of 108 million acres went on. In Kansas, Nebraska, the Dakotas and other states, blocs of land ranging from 10,000 to 600,000 acres often were sold to speculators and land companies. In 1886, to cite two extreme examples, 26 foreign syndicates and individuals owned 20,747,000 acres of land, and 11 timber firms held about 12 million acres of lumberland.

Specialization and productivity

Agricultural production was stimulated by more than the rise in the number of farm units and the total acreage under cultivation. The development of new markets encouraged crop specialization and thereby increased productivity. Furthermore, improved farm machinery and technology as well as the development of scientific agriculture, the use of commercial fertilizers, and the evolution of special techniques for semi-arid regions increased the productivity of the farm worker and the yield of the land itself. The value

of farm implements stood at \$246 million in 1860, at \$750 million in 1900, and \$1,265,000,000 10 years later. It took 10 minutes of human labor to produce a bushel of wheat from beginning to end in 1900 against 183 minutes in 1830. Even though farm population lost out to the city between 1870 and 1900, the efficiency of the farm worker compensated for this loss in labor power.

Farm production soared spectacularly as the new commercial agriculture took hold of the American farmer. In 1860, for example, the corn farmers turned out 800 million bushels, and by 1915 this figure was nearly three billion bushels.

This huge increase in production, however, hardly brought prosperity and a "golden age" to the new commercial farmer. It was a time of severe agricultural crisis. The adjustment of the new commercial agriculture to the industrial economy was painful. Though the number of farms, the total acreage, and the number of farmers increased sharply in these years, gross farm income increased only a little between 1865 and 1896. What is called the modern "farm problem," therefore, took shape at that time.

Significant imbalance

The farmers had two major difficulties. There was a significant

imbalance between supply and demand that meant falling prices and falling farm income. Then, as Theodore Saloutos, an agricultural historian, puts it, "the more industrialism advanced, the more did the fortunes of an agricultural America become affected by forces beyond its control." Characterizing the situation were a number of economic factors:

- Farm debt increased as the price of land rose and as farmers bought machinery.

- Domestic demand did not increase fast enough to give the farmer the price he felt was just. In 1870, people spent about one-third of their current income on farm products. Twenty years later, that figure had fallen to about one-fifth of current income.

- Foreign demand also proved inadequate relative to the supply of American farm products. The foreign market for such goods expanded in the late 19th century, but the influence of Canadian, Argentine and Russian grains, Argentine beef, Indian and Egyptian cotton, and wool and dairy products from New Zealand and Australia, depressed the world prices for American farm goods. The high American tariff added to this trend, for it shunted potential buyers of American goods to other markets.

Farm prices plummeted downward, a development intensified by

the general inadequacy of the nation's money supply. Essentially the same supply of gold and greenbacks served the nation in 1890 as in 1865, even though the population had doubled and economic enterprise had trebled.

Monopoly power

While the farmer had no control over the prices paid him for his commodities, the goods and services that he needed were often supplied by industries and businesses who exercised a growing amount of market power and monopolistic control. He complained of the high interest rates and the kind of transportation charges, frequently discriminatory, that he paid.

In 1890, for example, it was estimated that there were as many farm mortgages as there were farms in Kansas, Nebraska, the Dakotas and Minnesota. At one time, corn that sold for 15 cents a bushel in Iowa went to market at \$1 a bushel in New York. At another time, wheat farmers paid 65 cents a bushel to grow that crop when it was selling at 42 cents.

There were times when corn and wheat growers from Kansas to the Dakotas found it more "profitable" to burn grain to heat their homes than to sell it on the market and then purchase fuel. It is not surprising, therefore, that as early as 1880 one-fourth of all

American farms were worked by tenants. Twenty years later, the figure was 35 per cent.

The farmers had none of the power that the businessmen derived from the very technology of industrial production. There were too many farmers to permit self-regulation of production as a way of raising prices. "The farmer had become a businessman," write Carman and Syrett, "but he possessed none of the powers that helped to make business leaders prosperous."

Turn to politics

The farmers of the West and the South, therefore, turned to politics. From the 1870s through the 1890s, they stated their complaints against the behavior of industry, the "trusts," the commercial bankers and the "money power." They also lodged firm protests against the manner in which the government had supported the process of capital accumulation and industrialization. Farm organizations such as the Patrons of Husbandry, or the Grange, in the 1870s, and the various Farmers' Alliances in the 1880s and the 1890s formed the basis for such third party move-

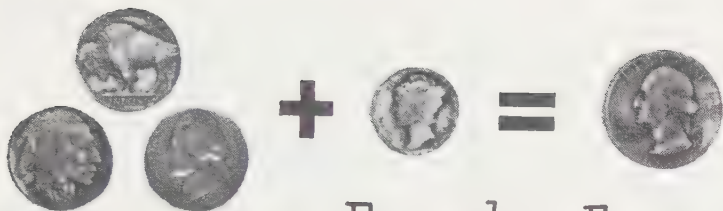
ments as the Greenback party and then the Populist party.

As a property owner, the farmer's demand for equity did not challenge the institution of private property. Instead, the farmer harshly questioned the manner in which income was distributed. His notion of justice drew up the belief that the small businessman and farmer were being crushed by the exactions demanded by the new industrial and financial powers.

At the center of the political program of the farmer lay his complaints against the "middleman." As a debtor, furthermore, the farmer pleaded for currency reform and supported inflationary movements, demanding paper currency and "free silver" as a way to ease the burden of debt.

The farmer tried to wrest control of transportation, credit, currency and land from those who held it. As a property owner, however, his vision of reform meant government regulation rather than government ownership. The government, then, would become an instrument of regulation that would insure a more equitable distribution of income in the new industrial environment. ■

NEXT MONTH: labor and living standards in an industrializing America



Everyday Economics

■ PEOPLE OF retirement age need not retire completely to be eligible for Social Security benefits. As a rule, benefits can be received if not more than \$1,200 is earned in a full year. If wages in excess of this amount are earned, one month's check will be withheld for every \$80 or fraction of \$80 in excess earnings. An exception is made to permit seasonal employment: even if wages of over \$1,000 are earned, a check will be received for every month in which wages do not exceed \$80 or during which the wage earner does not receive substantial income from self-employment. A retired person who continues to work will receive a check without regard to wages earned if he is 72 or over.

Decision-making



TREE-CUTTING is best done before spring leaves make the task more difficult. If cutting is planned on a wooded lot, the owner can avail himself of free advice on

which trees to cut out. Forestry men will inspect lots and mark the trees that should be removed.

Old folks at home



A TAXPAYER may claim his parents as dependents if he contributes more than half of their total support. However, if a dependent lives in his own home, the fair rental value of the lodging is considered as being contributed by the dependent for his own support. Fair rental value plus retirement benefits may come to a sizable total, making the dependent a taxpayer in his own right.

Scholarships and taxes



SCHOLARSHIPS and fellowship grants are tax exempt if the recipient is a candidate for a degree. If the recipient is not enrolled for a degree, he may exclude from taxable income no more than \$300 multiplied by the number of months

during which the grant was received. The number of months for which the exclusion is permitted is a total of 36; the months need not be consecutive. Payments made to enable the taxpayer to pursue research or studies primarily for the benefit of the grantor are not considered as scholarships or fellowships and are *not* tax exempt.

Blank wall?



PARENTS planning to redecorate Junior's room this spring can obtain, gratis, wall decorations that express the interests and personality of the child. Most steamship companies furnish ship pictures upon request, and railroads are as obliging. Motor companies publish prints of their cars, past, present and future.

Customer satisfaction



A RECENT survey by the National Automobile Dealers Association shows that the U.S. purchaser of a foreign car is a different person than we originally thought him to be. His income is over \$7,000, but he bought his car with economy in mind. Original cost and gasoline economy were major factors in his decision. Fifty-seven per cent of those interviewed reported that the foreign car was the only automobile in the household. When

purchasing their next car, 85 per cent of the foreign-car owners plan to select another import.

Patents



AMERICAN businesses who import foreign-made articles should make certain that the manufacturer holds a U.S. patent. If it does not, the American importer may discover that an American firm has obtained a patent for the product and he will be forced to cease importation.

Under construction



IF A homeowner sells his residence at a gain, and within a year buys another house, the gain is not taxed if the cost of the new residence is equal to or exceeds the adjusted sale price of the old residence. If a person has more than one home, the rule applies only to the principal residence. If a new home is *constructed*, an 18-month period is allowed—instead of just one year—and the homeowner must occupy the place before the end of the 18-month grace period. If the new home is constructed by a builder with whom a purchase contract is signed, the homeowner is considered a purchaser—not a constructor—and may not benefit from the 18-month rule.—S.T.



Herbert Hoover and the Great Depression. Harris G. Warren. 372 pp. New York: Oxford University Press. \$7.00.

• Prof. Warren enlivens his tale with journalistic impressionism, composing depression vignettes like a skilled rewrite man. He retains the scholar's respect for essential data like legislation and statistics, however, and thus can construct a competent historical study. Yet accuracy and humanity are not enough to grasp the agonizing heart of the matter. Warren lacks clarity in any final evaluation of Hoover, a man of technical efficiency in a time of the whirlwind. The description of an era when ideas were helpless is a salutary one, particularly for those with complacent hindsight. His defense of Hoover is useful in rescuing the former President from unfair attacks, but it carries a note of pious regard insufficiently supported by historical evidence.

* * *

The Art of Politics. Rexford G. Tugwell. 281 pp. New York: Doubleday. \$5.00.

• The author served as a member of Roosevelt's brain trust, was chair-

man of the New York City Planning Commission under La Guardia, and enjoyed a temporary friendship with Luis Munoz Marin while serving as Governor of Puerto Rico. He should be in a position to know of what he writes, but he throws no new light on the art of politics as practiced by his three subjects. He admits, for example, that while he can understand why Roosevelt made certain crucial decisions, he cannot explain how the decisions were reached. Tugwell thus neglects the real purpose of his book: how to be a successful politician. He wanders progressively further from the point and indulges in dull repetition and even duller personal reminiscences.

* * *

Socialism in One Country, 1924-1926. Edward H. Carr. 557 pp. New York: Macmillan. \$7.50.

• Prof. Carr, an English scholar with a Foreign Office background, has applied such earnest to his history of Soviet Russia that this, the fifth volume, has not got beyond the mid-Twenties. He has collected a mountain of data, but he lacks guiding insight, and the book remains a graveyard of historical remains. It deserves note as an example of a sin

that besets American more often than English scholarship, the substitution of compendia for thought. Carr permits the drama's actors to establish the premises; this amounts to exhausting a question, for example, by quoting Lenin and a Soviet opponent. But the Soviet reality cannot be understood on the basis of the Soviet imagination.

* * *

The Income of Nations. Paul Studenski. 554 pp. New York: New York University Press. \$25.00.

- While addressed primarily to the professional economists (for whom it will prove indispensable), this bulky volume is so clearly written that even noneconomists will find it useful for reference purposes. Prof. Studenski of New York University combines a wealth of information on the "income of nations" with a truly profound analysis of how the concept of "income" has evolved during the last 400 years. This is a difficult book, but the difficulties are interesting and worth mastering.

* * *

Third Parties in American Politics. Howard P. Nash, Jr. 313 pp. Washington: Public Affairs Press. \$6.00.

- In a country ruled by the majority under a two-party system, minority dissent is normally adjusted within the major parties. Uncompromising dissent, however, has frequently given rise to third parties whose role in politics has often shaped our country's destiny. Third parties first proposed the income tax, prohibition, suffrage for women and Negroes, and the convention system of nominations. They have also proposed

legislation that was fortunately never enacted. Most third parties are short-lived but the GOP became a major party and the Greenbackers have had a Presidential nominee in every election since 1876. Mr. Nash's comprehensive history of third parties studies their succession and interaction, but is designed to be neither definite nor complete. More than a third of the book is comprised of political cartoons, posters, newspaper articles and other illustrations which evoke the emotional and political atmosphere that surrounded the third parties.

* * *

The Coming of the New Deal. Arthur M. Schlesinger, Jr. 669 pp. New York: Houghton Mifflin. \$6.75.

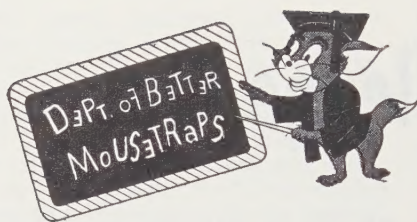
- The second volume in Prof. Schlesinger's history of the "Age of Roosevelt" is even better than his excellent beginning. Schlesinger seems to have read everything published about the early New Deal years and he writes with a journalist's flair for the significant detail and the revealing anecdote. His brief personality sketches of Wallace, Johnson, Tugwell and the other New Dealers are brilliant. Indeed, the only weakness of this entertaining book is that it is not history, although it is surely the stuff that future histories will be written from. Schlesinger's history is based upon certain assumptions about the New Deal which make it impossible for him to be as objective as he would like to be. He is willing to record only one New Deal failure, the unimportant gold-buying program. All the mistakes were minor while all the achievements were major. The result is a brilliant but an inadequate history. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 12.

- | | |
|--|---|
| <p>(1) Operations research for the U. S. government is performed by specially recruited civil servants.
True ☐ False ☐</p> <p>(2) Taxes have little net effect on individual incentives to keep wealth invested.
True ☐ False ☐</p> <p>(3) Expenditures for new plant and equipment remain high when production begins to contract.
True ☐ False ☐</p> <p>(4) An unbalanced federal budget in any given year spells danger for our economy.
True ☐ False ☐</p> <p>(5) During the recent recession personal income declined negligibly.
True ☐ False ☐</p> <p>(6) Small Business Investment Companies may deduct investment losses directly from taxable income.
True ☐ False ☐</p> | <p>(7) In some large corporations, fringe benefit payments to employees exceed dividends received by common stockholders.
True ☐ False ☐</p> <p>(8) Farmers who migrate to the city choose the industrial sections of large metropolitan areas.
True ☐ False ☐</p> <p>(9) The pattern of land distribution after the Civil War favored the farmers.
True ☐ False ☐</p> <p>(10) Senator Paul H. Douglas once advocated the disappearance of the Democratic party.
True ☐ False ☐</p> <p>(11) The average wage of skilled workers is above \$7,500.
True ☐ False ☐</p> <p>(12) DuPont has pioneered the use of electronic machines in measuring advertising effectiveness.
True ☐ False ☐</p> |
|--|---|



From the Age of Science: A solar cigarette lighter that utilizes the power of the sun to light cigarettes—with no puffing required. It is wind-proof, waterproof, flameless and pocket size, but you'd better carry matches on a cloudy day . . . A plastic one-egg incubator that provides a thrilling natural history for children, and enables them to hatch their own Easter chick. It converts into a brooder after the chick is hatched . . . A miniature atom smasher that produces 75,000 volts, but which is absolutely safe . . . An electric-brain construction kit with sufficient parts and tools to build over 50 different circuits for problem solving and game playing.

* * *

Around the House: A decorative wall panel that lights a room while heating or cooling it . . . A light switch with a neon light in the button that should last over 20 years . . . A faucet dishwasher that holds detergents and dispenses suds or rinsing water upon pressure on a button. The dishwasher is water-powered and requires no electrical or supplementary power . . . A miniature hibachi (charcoal grill) that uses two briquets. Guests can heat hors d'oeuvres or toast marshmallows on toothpicks.

* * *

For the Outdoor-Minded: A .22 caliber rifle that is one-third lighter

than current models and is not hurt by water. It is made of nylon, except for a steel barrel and bolt assembly . . . A belt light for night fishermen that enables them to change a lure and unhook a fish without juggling a flashlight . . . A campstool small enough, when folded, to fit into an overcoat pocket . . . A polyethylene fish-hook boot that slips over individual barbs to keep points sharp and avoid tangling . . . A spring-triggered fishing-rod holder that automatically snaps to a vertical position and sets the hook at any bite on the line. It can be adjusted to the weight of the type of fish expected to bite.

* * *

The Home Workman: A polyethylene paint-can rim with a pouring spout and a ridge to guide excess paint back into the can. A built-in magnet holds the brush with bristles pointed down into the paint . . . A drinking-fountain attachment that screws on to the garden hose. It is adjustable for direction and volume of stream . . . A ladder with built-in tool holders that eliminates the dangers and damages of falling tools . . . Lifetime interlocking aluminum roof shingles that come in six baked-enamel colors and are embossed with wood grain.

* * *

Travel Aids: An upside-down rack and special stopper valve for thermos bottles that enables a driver to pour a drink with one hand . . . An American-made alarm wrist-watch that is cheaper than foreign models . . . A transistor driver alarm that alerts a driver on the verge of falling asleep at the wheel.

* * *

Write to CHALLENGE magazine for additional information. ■